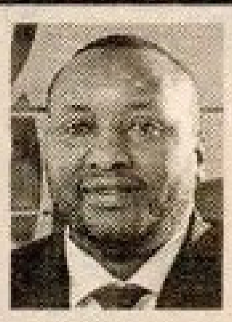
ECONOMY

Role of the private sector in upgrade of infrastructure

PARTNERSHIP



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There is a wise saying that goes, "Price is what you pay, Value is what you get". The development of infrastructure for transport, power, water and telecoms has always been considered a catalyst for economic growth. The McKinsey Global Institute estimates that infrastructure has a socio-economic rate of return of around 20 percent.

Infrastructure has a direct impact on growth through physical capital accumulation and indirectly through enhancement of productivity. It also has a directly proportionate relationship with investment. Countries with high growth rates invest more in infrastructure which subsequently feeds back into the growth process.

Countries reporting higher infrastructure investment have higher standards of living

Countries that report higher infrastructure investment rates also have higher standards of living. This indicates a strong link between infrastructure investment and some of the key indicators of social wellbeing.

At the micro-level, infrastructure investment stimulates private sector growth by lowering the cost of production and providing access to new markets, presenting new production opportunities and trade.

While the last decade has seen a significant rise in infrastructure investment in the developing world including Africa, this has not been at a level commensurate with demand arising from populations and productivity.

In Africa, the average public sector investment in infrastructure is at about 3.5 percent of GDP.

Overall, Africa lags in coverage of key infrastructure. If we consider electricity, for example, about 600 million people on the continent are not connected to the grid.

In 2018, while Africa only connected 20 million more people, India with a comparable population and GDP added 100 million people to the grid.

Electrification rate in Uganda and Tanzania is 19 and 33 percent respectively. Kenya, which is East Africa's largest economy, has a rate of 73 percent. Ghana and South Africa are at 83 and 86 percent respectively. This unmet demand looks likely to increase. McKinsey forecasts that Africa's demand for electricity will quadruple between 2010 and 2040.

Sub-Saharan Africa is also home to 40 percent of the world's 783 million people without access to clean water. Other than posing serious health challenges, lack of access to clean water denies populations time for school and work as well as a major factor/ input of production. Access can be significantly increased with investment in harvesting and supply.

Kenya's Big 4 Agenda is anchored on investing in mega infrastructure projects in manufacturing, housing, agriculture and healthcare. Tanzania's vision 2025 focuses on growing telecoms, energy and water infrastructure. Uganda's is anchored on exploiting oil and gas resources, increasing electrification, transport and ICT development.

How can the private sector bridge this gap?

A 2020 report by the OECD says the gaps in Africa's infrastructure investments cannot be met by current official sources of funding alone.

The report recommends private investment as a promising way of closing the funding gap. This means supporting government investment in these critical areas.