CONCEPT PAPER
2012 AFRICA DAY SYMPOSIUM
HARD INFRASTRUCTURE DEVELOPMENT IN AFRICA: THE ROLE OF JAPAN

Introduction

Hard infrastructure constitutes the very backbone of any modern and successful society. It provides the physical basis for sustainable economic growth and development. In addition, by way of positive impact in key areas of social well-being, such as healthcare, water, sanitation, housing and electrification, it serves as an invaluable tool in the ongoing battle to reduce poverty and to attain the Millennium Development Goals.

Although the importance of investment in hard infrastructure is clear, the fact is that such investment (both public and private sector) has fallen significantly over the past decade in developing countries in general, and in Africa in particular.

Today, the African continent's infrastructure remains the least developed in the world, and constitutes a serious impediment on the path towards sustainable continental growth and development. It is estimated that poor infrastructure alone hinders African economic growth by around 2% every year. The following facts illustrate the situation in Africa:

- Only 30% of the African population has access to electricity;
- Some 40% of Africa's population lacks access to safe drinking water, and
- 60% lacks basic sanitation;
- Only 18% of the continent's irrigation potential is being exploited, and many countries on the continent are net food importers;
- Africa has an average telecommunications (telephone/internet) penetration rate of just 6%;
- Railway coverage is sparse;
- African ports are often uncompetitive, and inland waterways are hardly utilized for trade and travel.

Poor transport networks and inadequate interconnective infrastructure, specifically for landlocked countries, mean that transport costs in Africa are among the very highest in the world. This not only explains why intra-African trade constitutes less than 10% of the continent's total trade, but also explains the continent's inability to compete effectively in the international marketplace — both absolutely essential elements for sustained and sustainable economic growth.

Poor infrastructure has also had a negative impact on potential inflows of FDI (foreign direct investment).

The Development of PIDA

Fully conscious of the negative impact of such an infrastructure deficit on the continent's economic growth trajectory and potential, African leaders instructed the leading continental institutions — the **African Union Commission**, the **African Development Bank** and the **New Partnership for Africa's Development** (**NEPAD) Planning and Coordination Agency** — to develop a credible, practical and workable approach to effectively and sustainably address this problem.

The result of the collective efforts of these institutions and others has come in the form of the **Programme for Infrastructure Development in Africa** (PIDA), a fully-integrated infrastructure development blueprint for the continent that places the greatest priority on key infrastructure projects supporting regional integration and the physical interconnection between and among African countries.

On 30 January 2012, at the close of the 18th Summit of the African Union, African leaders gave their endorsement to PIDA and "the institutional architecture for its implementation".

PIDA sets out short-term goals to be achieved by 2020; medium-term goals to be achieved by 2030; and longer-term goals with a target-date of 2040. The overall objective is to accelerate the delivery of Africa's current and future regional and continental infrastructure projects in **transport, energy, information and telecommunications technologies**, as well as in **trans-boundary waterways** — and, in so doing, to enhance the physical integration of Africa, boost intra-African trade and raise African competitiveness within the context of the global economy.

In the immediate to shorter term perspective, PIDA will focus on its **Priority Action Plan**, which identifies and prioritizes 51 regional and continental infrastructure projects designed to meet the continent's most immediate infrastructure requirements. The plan is to be implemented by 2020.

Developing such an agreed-upon integrated infrastructure-development blueprint for the continent is certainly a major achievement. The next challenge will be to meet the set implementation target dates relevant to the different PIDA phases and, in this regard, to mobilize adequate resources, both domestic (i.e., from within the continent) and international to fund implementation of the various phases.

Implementation: International Support and the Need for Public-Private Partnership

African governments are long-cognizant of the fact that, alone, they cannot hope to successfully address the massive infrastructure gap in the near to medium term. They have acknowledged that in addition to continuing to press development partners to honour the still largely unfulfilled commitments of support made — such as those of the 2005 G8 Gleneagles Summit — there is also the need for much greater domestic and international **private sector** engagement in this critical development sector, including through **public-private partnership arrangements.**

There is no question that to successfully address Africa's huge infrastructure development gap will require greater levels of co-ordination and greater harmonization of vision and effort within the continent itself and with Africa's principal development partners.

At the same time, it is equally clear that Africa's infrastructure needs present hugely attractive trade and investment opportunities for both public and private sector entities among the continent's many development partners, including Japan.

<u>Japan</u>: <u>Growing Private Sector Interest in Africa</u>

The past few years have seen a growing interest on the part of the Japanese private sector in the trade and investment opportunities available on the African continent. Although still relatively minor (in terms of Japan's global trade and investment flows), the current trend towards Africa is positive and most encouraging.

Partially, this is due to the mechanisms put in place at **Tokyo International Conference on African Development (TICAD) IV** in May 2008, under the "**Boosting Economic Growth**" pillar of the **Yokohama Action Plan**, to encourage and to facilitate Japanese private sector activity in Africa. These include the US$4 billion in soft-loan financing allocated to the building of hard infrastructure in Africa, Japan Bank for International Cooperation's (JBIC's) US$2.5 billion **African Investment Facility**, and the decision to use Japanese official development assistance (ODA) as a catalyst in support of Japanese private sector engagement in Africa.

But, the recent upsurge in Japanese private sector interest in Africa lies also in the realization that Africa is rapidly changing, and that very significant strides have been made across the continent in terms of improving the overall investment climate, including general governance and economic management practices.

Africa is a continent extremely rich in natural resources, including the strategic minerals, metals and rare earth substances so important and so valuable to Japan's high-tech industries. Equally as attractive for potential Japanese investors is Africa's growing population (around 1 billion people), their growing affluence (a combined GDP in excess of US$1.5 trillion) and the emergence of a very sizeable African middle-class with money to spend.

Indeed, the future is very bright for Africa, and it is important for Africa and for Japan that Japan become more active, more engaged and more visible in that engagement across the continent.

Of course, Japan as a nation is still coming to terms with the devastation of the triple disasters of 11 March 2011, and heartfelt condolences continue to be offered to all those affected by this tragedy. In the year following this disaster, an incredible amount of progress has been made in rebuilding from the destruction; however, Japan continues to suffer the lingering impact of global economic slowdown on its heavily export-dependent economy. In such challenging circumstances, it is clear that new and innovative opportunities are needed, and through a relationship of cooperation and solidarity, Africa today could constitute just such an opportunity.

Successive administrations in Japan over the past few years, including the administration since the March 2011 disasters, have acknowledged the need for Japan to focus more on "economic diplomacy", "resource diplomacy" and "the international promotion of Japanese infrastructure systems … in order to meet demands for infrastructure … particularly in Asia and emerging countries”.[1]

Although Africa, generally, may not have need of Japan’s *shinkansen* technology yet, the potential is virtually limitless for Japanese investment in a very broad range of infrastructure-development sectors, including by way of resources-for-infrastructure swap arrangements, innovative financing mechanisms for infrastructure development and public-private partnership arrangements — either on a Japan/Africa/African institutions basis, or in conjunction/partnership with other individual foreign countries or institutional development partners.

Towards TICAD V

In demonstration of its continuing commitment to further engagement with Africa, the Government of Japan recently confirmed that **TICAD V** will take place in Yokohama in June 2013.

From an African perspective, it will be very important for **TICAD V** to further enhance the focus, established at TICAD IV, on “**Boosting Economic Growth**” in Africa and the emphasis placed, in this regard, on the building of hard infrastructure, especially infrastructure contributing towards physical regional and continental interconnectivity.

The challenge, therefore, is how to find an appropriate synergy between all these various factors:

- The launch of **PIDA** and Africa’s urgent need for investment in hard infrastructure development;
- Japan’s stated intention of seeking a closer, more meaningful relationship with Africa, including through the **TICAD Process**;
- The approach of **TICAD V** in June 2013;
- The continuing focus of the **TICAD Process** on “**Boosting Economic Growth**” and on the promotion of trade/investment, tourism and hard infrastructure development in Africa;
- The acknowledgement by the **G8** and **G20** groupings of the need to address Africa’s infrastructure gap, and their stated determination to “… overcoming obstacles to infrastructure investment, developing project pipelines, improving capacity and facilitating increased finance for infrastructure investment in developing countries, in particular low-income countries”[2]; and
- The determination of the Government of Japan to export Japanese infrastructure systems, including to emerging countries.

The emergence of **PIDA,** a fully-agreed continental blueprint for infrastructure development in Africa, the growing Japanese private sector interest in trade and investment opportunities on the continent (including in the infrastructure sector), and the impending convening of **TICAD V**, taken together, appear to create a basis on which to examine the possibilities for the Japanese private sector in this critical field

[1] Foreign policy speech by the Minister for Foreign Affairs, Hon. Seiji Maehara, to the 177th Session of the Diet, 24 January 2011.

[2] Multi Year Action Plan on Development – 2010 G-20 Summit, Seoul, Republic of Korea,

of development in Africa. Equally as important, they appear to create a basis for examining the extent to which the Government of Japan and others under the **TICAD** umbrella might be able to lend additional concrete support to Africa’s own efforts in this critically important endeavour.