POLICY BRIEF

TRADE INFRASTRUCTURE FINANCING IN AFRICA: AN EXPLORATION OF GEOPOLITICAL FUNDS FOR PRIVATE SECTOR PARTICIPATION

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By Teniola Tayo

Acknowledgments and citation

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Executive summary

Africa's trade infrastructure deficit presents a significant challenge, with annual financing needs estimated between USD 130-170 billion and a funding gap of USD 68-108 billion. The African Continental Free Trade Area agreement (AfCFTA) amplifies the urgency for robust infrastructure development to enhance intra-African trade. Despite the involvement of regional bodies like the African Development Bank and initiatives such as the Programme for Infrastructure Development in Africa (PIDA), the gap persists, largely due to limited domestic funding and high public debt levels. This report examines the potential of leveraging geopolitical funds – such as China's Belt and Road Initiative (BRI), the European Union's Global Gateway Initiative (GGI) and the G7's Partnership for Global Infrastructure and Investment (PGI) – to mobilise private sector participation in trade infrastructure development across Africa. These funds, driven by strategic geopolitical objectives, present both opportunities and challenges for African private sector actors.

Opportunities offered by geopolitical funds for Africa's trade infrastructure development include providing access to large-scale financing. These initiatives can promote public-private partnerships (PPPs), allowing African private sector entities to engage in major infrastructure projects while leveraging the expertise and efficiency of the private sector alongside public resources. Additionally, these projects can facilitate technology and knowledge transfer, enhancing the capabilities of African firms. Participation in such high-profile international projects can also boost the global visibility and credibility of African companies, opening up further opportunities for international collaboration and market expansion. Furthermore, these initiatives often include capacity-building components, strengthening the institutional capabilities of local firms and positioning them as key players in addressing Africa's infrastructure gaps, all of which are crucial for the success of the AfCFTA.

Despite these opportunities, significant challenges exist. There is an entrenched dependency on external funding, which can lead to increased debt burdens and impact long-term economic sustainability. Restrictive contract terms, especially in Chinese lending practices, may limit financial flexibility and expose African entities to undue leverage. Additionally, many African private sector actors lack awareness of these funds, and the complex application processes can be daunting, particularly for smaller enterprises. Bureaucratic hurdles, such as extensive documentation and long approval times, further complicate access to these funds. Moreover, the sustainability standards required by these initiatives can be challenging to meet, especially for local firms with limited experience in environmental, social and governance (ESG) practices. Lastly, geopolitical considerations can misalign the strategic goals of the funders with the developmental needs of African countries, complicating the collaboration between governments and private sector actors.

The report underscores the critical need for a coordinated and collaborative approach involving African governments, private sector entities, geopolitical fund owners and intermediary organisations to effectively address the challenges in trade infrastructure development. It emphasises the

importance of developing comprehensive infrastructure strategies that are closely aligned with the objectives of the AfCFTA, ensuring that projects not only support regional trade but also contribute to economic integration across the continent. Enhancing the bankability of infrastructure projects is crucial, as it will attract more investment by making these projects financially viable and appealing to private investors. Additionally, fostering closer collaboration between private sector actors and governments is vital for the successful implementation of these projects. This includes creating an enabling environment for PPPs, improving regulatory frameworks and ensuring that both public and private stakeholders are engaged early in the project development process. This will maximise the impact of geopolitical funds on Africa's infrastructure landscape.

By addressing these challenges and leveraging the opportunities presented by geopolitical funds, Africa can make significant strides in closing its infrastructure financing gap, thereby supporting sustainable economic growth and regional integration under the AfCFTA.

1. Introduction

The challenge of solving Africa's infrastructure deficit has been an ever-present fixture in global development discourse. The African Development Bank (AfDB) estimates that the continent requires USD 130–USD 170 billion per year in infrastructure financing. This translates into an annual deficit of USD 68–108 billion (African Development Bank, 2023). The costs of using infrastructure services in Africa are multiple times higher than in other regions. Energy costs for manufacturing enterprises are up to four times higher, road freight tariffs are two times higher than in markets such as the United States and travel times along critical export corridors are up to three times higher than those in Asia. Telecommunications costs are also high, with mobile and internet services costing about four times as much as in South Asia (African Development Bank, 2023). Meanwhile, access to electricity, improved sanitation and water in Africa is among the lowest in the world (Afrobarometer, 2024). Beyond challenges relating to the cost of and access to infrastructure services, the quality of these services is also low on average. Together, these have contributed to the estimation that poor infrastructure has resulted in a 40% loss in productivity in African countries and up to a two percentage point reduction in annual national economic growth (African Union, 2023).

The high annual infrastructure deficit exists in the context of the poor fiscal situation of many African governments. In 2021, the average tax-to-GDP ratio for 33 African countries stood at 15.6% (OECD, 2023b). This is low in comparison to the averages for other developing regions, such as Asia-Pacific (19.8%) and Latin America and the Caribbean (21.7%). According to the World Bank (2023), between 2021 and 2022, the fiscal deficit in the sub-Saharan African region widened from 4.8% of GDP to 5.2% of GDP. Some African countries are also facing debt defaults or distress. The World Bank (2023) again estimates that the median public debt-to-GDP ratio in sub-Saharan Africa grew from 32% in 2010 to 57% in 2022 and that 22 countries in the region are facing or at a high risk of debt distress. Bilateral infrastructure lending from newer partners like China has also declined. It was estimated that in 2022, Chinese loan commitments to African countries fell to their lowest level since 2004 (Moses et al., 2023).

The launch of the African Continental Free Trade Area (AfCFTA) agreement in January 2021 has increased the urgency for infrastructure development on the continent, particularly trade facilitation infrastructure. This includes hard infrastructure such as ports and harbours, road networks, rail networks, airports, border posts and customs facilities, special economic zones and industrial parks, and energy infrastructure. It also includes soft infrastructure such as payment systems, other financial services and information and communication technology. A report by the United Nations Economic Commission for Africa (UNECA) estimated that the implementation of the AfCFTA would increase the demand for intra-African freight by 28% (UNECA, 2022).

These challenges have amplified the calls for private sector investment in infrastructure development in Africa. This is happening for a few reasons. The private sector is perceived to have better access to private capital when compared with governments: The sector is better able to prepare bankable investment projects, bring on board innovation, efficiency and expertise, and can help reduce the fiscal burden on governments. Models such as public-private partnerships are also regarded as sustainable as they combine the expertise of public and private sector actors. However, private sector involvement in infrastructure investment in Africa faces several challenges. One of the major challenges is access to finance due to high costs, risk perception, currency risks, weak financial markets and lack of suitable financing instruments.

However, one source of infrastructure finance remains largely untapped by African private sector actors. These are what are sometimes referred to as 'geopolitical funds'. Geopolitical funds are financial resources allocated by a state, group of states, or international institutions, primarily driven by strategic geopolitical objectives. These funds are often used to influence or shape political, economic and social dynamics in specific regions or countries to align with the strategic interests of the funding entity. This category of funds includes China's Belt and Road Initiative (BRI), the European Union's Global Gateway Initiative (GGI) and the G7's Partnership for Global Infrastructure and Investment (PGII).

This policy brief explores the opportunities for greater private sector involvement in the financing and development of trade facilitation infrastructure in Africa and the role geopolitical funds can play in this. Although some of these funds have been created precisely to respond to infrastructure needs in the developing world, it has been historically challenging to match African infrastructure projects with finances, with the main reason being cited as the projects' 'bankability' (Pleeck & Gavas, 2023). The exploration conducted by this brief is therefore critical, given that some of these funds have set investment targets that can simply be missed by using the excuse of a lack of sufficient bankable projects. Increased private sector involvement on the African side will be crucial to mobilising the resources promised by these funds to support the development of trade infrastructure in Africa.

2. Understanding the AfCFTA's infrastructure needs

The AfCFTA seeks to increase the trade of goods and services produced in Africa among African countries. It will do this by gradually eliminating tariffs on up to 97% of goods produced and traded in Africa and by addressing the non-tariff barriers hindering intra-African trade. A number of studies have found that removing non-tariff barriers will have a more significant impact than eliminating tariffs on the growth of intra-African trade. For example, a study by the World Bank found that non-tariff trade costs in Africa are equivalent to 292% of tariffs levied on the value of the goods (UNESCAP-World Bank, 2023). Transportation and other infrastructure costs are a core component of these non-tariff trade costs. **Table 1** lists some of the hard and soft infrastructure needs under the AfCFTA.

Table 1.
Some infrastructure needs under the AfCFTA

Hard infrastructure	Transportation infrastructure	• Roads and highways: upgrading and expanding road networks for better connectivity between countries. • Railways: developing new and enhancing existing rail networks for efficient cargo and passenger movement. • Ports and harbours: modernising and expanding seaports for improved maritime trade. • Airports: upgrading airports to handle increased cargo and passenger traffic.
	Energy infrastructure	• Power generation: increasing capacity through new power plants, including renewable energy sources. • Transmission and distribution networks: expanding and upgrading electricity grids for reliable supply. • Off-grid energy solutions: developing solar, wind and other renewable energy solutions in remote areas.
	Telecommunications infrastructure	• Broadband networks: expanding high-speed internet access across the continent. • Mobile connectivity: enhancing mobile network coverage and capacity.
	Water and sanitation	• Water supply systems: building and upgrading water supply infrastructure. • Sanitation and waste management: developing efficient waste management systems and sanitation facilities.
	Industrial infrastructure	• Special Economic Zones (SEZs): establishing and enhancing SEZs for industrial development. • Manufacturing hubs: developing infrastructure to support manufacturing industries.

Soft infrastructure	Trade facilitation mechanisms	• Customs and border management: streamlining customs procedures and border control for efficient trade. • Trade logistics platforms: developing systems for efficient logistics and supply chain management.
	Data and information systems	• Trade information portals: developing platforms for sharing trade-related information. • Data analytics and monitoring: implementing systems for monitoring trade flows and economic impacts.
	Legal and regulatory frameworks	• Harmonisation of trade laws: aligning national laws and regulations with AfCFTA objectives. • Intellectual property (IP) rights: establishing and enforcing a unified IP rights framework.
	Financial infrastructure	• Payment systems: developing a unified payment system for seamless cross-border transactions. • Access to credit: enhancing access to finance for businesses engaged in intra-African trade.
	Human capital development	• Education and training: investing in education and vocational training to develop skills relevant to the needs of the free trade area. • Health infrastructure: strengthening health systems to ensure a healthy workforce.
	Institutional capacity building	• Strengthening AfCFTA institutions: enhancing the capacity of institutions responsible for implementing the AfCFTA.

Source: Author's construct, 2024

Table 2.
Some transport corridors in Africa

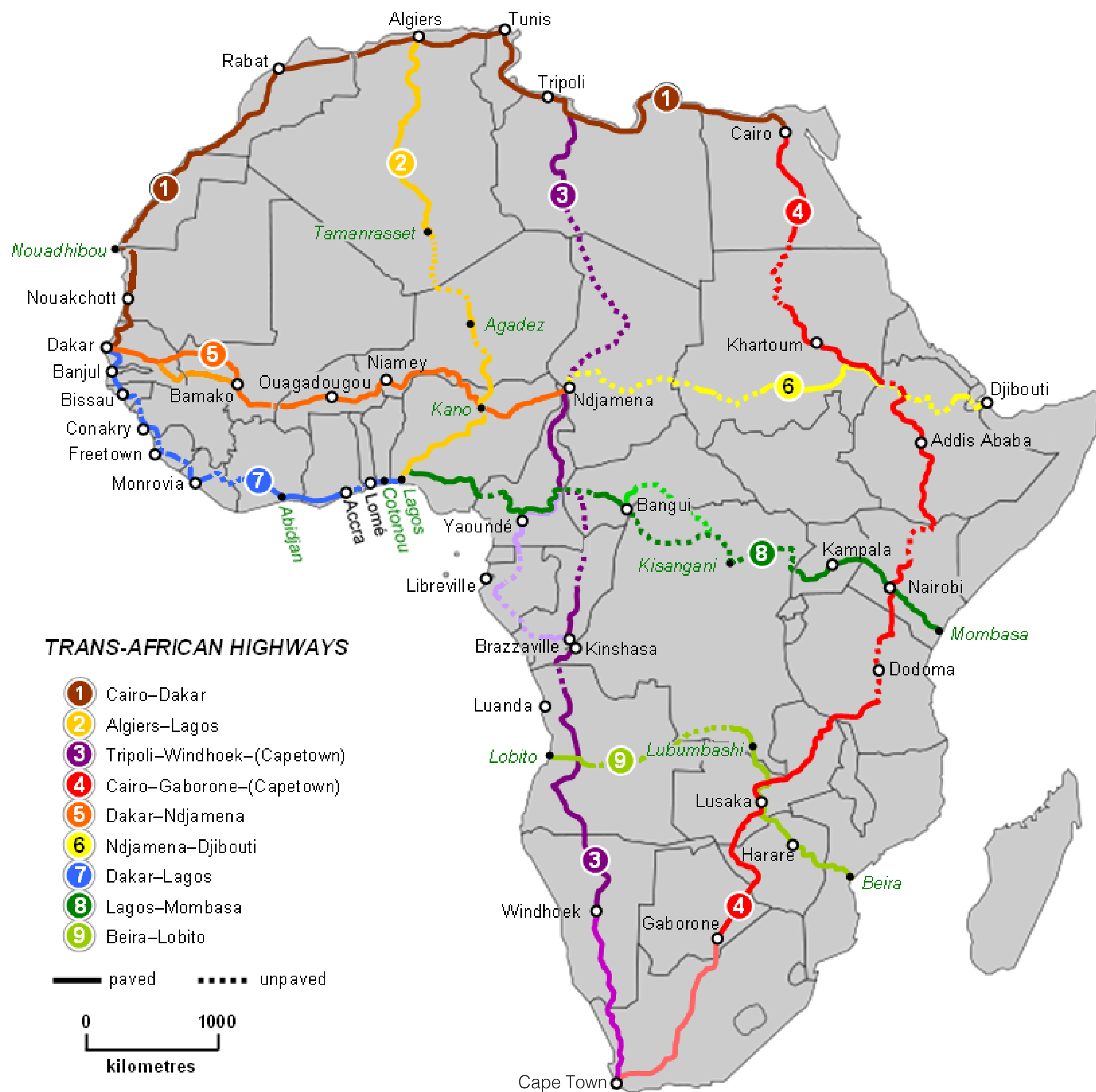
North Africa	• Cairo-Dakar Corridor: spanning from Egypt to Senegal, this corridor runs along the Mediterranean coast of North Africa and down the Atlantic coast of North-West Africa. • Algiers-Lagos Corridor (Trans-Saharan): connects Algeria and Nigeria, passing through Niger. • Tangier-Agadir Corridor: located in northern Africa, this corridor includes the Tanger Med Port and Free Zone, and connects Tangier to Casablanca.
West Africa	• Abidjan-Lagos Corridor: stretching over 1 000 km, it connects five major West African cities: Abidjan, Accra, Cotonou, Lomé and Lagos. • Dakar-N'Djamena Highway (Trans-Sahelian Highway): links the West African countries of the Sahel. • Dakar-Lagos Highway (Trans–West African Coastal Road): runs along the West African coast.
Central Africa	• Beira-Lobito Corridor (Trans-African Highway 9): extends from Beira in Mozambique to Lobito in Angola. • N'Djamena-Djibouti Corridor: extends from Chad to Djibouti.
East Africa	• Djibouti-Addis Ababa Corridor: connects Djibouti to Ethiopia and is home to the continent's most advanced container terminal. • Mombasa-Kigali Corridor: links the port of Mombasa in Kenya to Kigali in Rwanda. • Lagos-Mombasa Corridor: connects Lagos in Nigeria to Mombasa in Kenya. • Tripoli-Windhoek Corridor: extends from Libya to Namibia. • Cairo-Gaborone Corridor: runs from Egypt to Botswana.
Southern Africa	• Durban-Lubumbashi Corridor (North-South Corridor): connects the port of Durban in South Africa to Lubumbashi in the Democratic Republic of Congo.

Source: Author's construct, 2024

In addition to the list in **Table 1**, the global fight against climate change means that the response to the infrastructure needs under the AfCFTA will need to include environmental considerations, including sustainable transport networks, green energy infrastructure, eco-friendly industrial zones, digital infrastructure for trade efficiency, sustainable agriculture infrastructure and climate-resilient urban infrastructure. The need for climate-resilient or mitigating trade infrastructure widens the infrastructure financing gap and reduces the ability of governments to fill it.

There are ongoing integrated infrastructure interventions in Africa to facilitate cross-border trade. Some critical trade corridors have been identified with efforts to mobilise investment. **Table 2** lists some of these corridors and **Figure 1** shows the Trans-African Highway Network, which includes some of the listed corridors. Although the network was first conceived in 1971, there has been some progress in its execution.

Figure 1:
Trans-African Highway Network



Source: Retrieved from Wikimedia Commons

Some challenges facing infrastructure development under the AfCFTA

There are a number of challenges facing the development of sustainable critical infrastructure needed for the successful implementation of the AfCFTA. These include:

1. High capital requirements: The scale of investment required for comprehensive infrastructure development across Africa is immense. This includes the cost of building new infrastructure and upgrading existing facilities.

2. Risk perception: Africa is often perceived as a high-risk investment destination due to factors like political instability, economic volatility and currency fluctuations (Gbohoui et al., 2023). This perception can deter investors and increase the cost of capital (Hassan, 2023).

3. Limited domestic funding and high public debt levels: Many African countries have limited domestic financial resources due to smaller economies, lower savings rates and constrained fiscal budgets. High public debt levels also restrict their ability to finance infrastructure projects through public borrowing (David & Eyraud, 2023).

4. Lack of bankable projects: There is a reported shortage of well-prepared, bankable infrastructure projects. Many projects do not progress beyond the feasibility stage due to poor project preparation and unclear investment returns (Lakmeeharan et al., 2020).

5. Inadequate Public-Private Partnerships (PPPs): While PPPs are crucial for infrastructure financing, many African countries lack the necessary legal and regulatory frameworks, as well as the institutional capacity to effectively implement and manage them (Kilangi, 2021).

6. Foreign exchange risks: Given that much of the funding needs to be sourced internationally, there is a risk associated with foreign exchange fluctuations, especially in countries with volatile currencies (Rogoff & Reinhart, 2003).

7. Insufficient integrated regional planning: Effective regional planning is required to ensure that infrastructure projects across different countries are harmonised and mutually beneficial (Hagerman, 2012).

8. Inadequate risk mitigation instruments: There are insufficient mechanisms to mitigate risks associated with infrastructure projects, such as political risk insurance and currency risk management tools (McKinsey, 2020).

9. Capacity constraints: Many African countries have limited technical and managerial capacity to plan, develop and implement large-scale infrastructure projects (McKinsey, 2020).

10. Governance and transparency issues: Issues related to governance and transparency in project tendering and implementation can deter potential investors due to concerns over corruption and mismanagement (McKinsey, 2020).

These challenges, coupled with the challenging fiscal environment facing many African governments, have slowed the process of addressing critical infrastructure needs (McKinsey, 2020). This is despite the fact that regional actors such as the African Union, the AfDB and

the African Export-Import Bank (AfreximBank) are playing a role in the development of this infrastructure. The African Union has launched plans such as the Program Infrastructure Development for Africa (PIDA)[1] and is the champion of the Trans-African Highway Network. The AfDB has invested heavily in regional infrastructure development, and AfreximBank is managing a USD 1 billion Adjustment Fund for the AfCFTA that may also invest in infrastructure.

However, the combination of these efforts has been insufficient to reduce the annual infrastructure financing gap of USD 68–108 billion. This implies that innovative ways must be found to fund critical infrastructure to facilitate trade under the AfCFTA. One actor that could fill the funding gap is the private sector. Some efforts have already been made to scale up private sector participation in critical infrastructure provision. **Table 3** compiles some funds and initiatives with this goal.

Table 3.
Some initiatives targeted at increased private sector participation

	Programmes and initiatives	Responsible
Continental	Programme for Infrastructure Development in Africa (PIDA)	African Union
	Africa50 Fund	African Development Bank
	Infrastructure Project Preparation Facility (IPPF)	New Partnership for Africa's Development (NEPAD) (African Union)
	African Legal Support Facility (ALSF)	African Development Bank
	African Infrastructure Investment Managers (AIIM)	Private organisation
	Capital Mobilization and Partnerships Department (and other diverse initiatives)*	African Finance Corporation (AFC)
	Africa50 Infrastructure Acceleration Fund	International Finance Corporation
	Private Sector Investment Lab	World Bank
Regional	Public-Private Partnership (PPP) Network	Southern African Development Community (SADC)
	Public-Private Partnership (PPP) Bill	East African Community (EAC)
	Public-Private Partnership (PPP) Initiatives	West African Development Bank (BOAD)
	Africa Investment Forum	African Union and the African Development Bank
	Smart Africa Initiative	African Union, International Telecommunication Union (ITU), World Bank, African Development Bank (AfDB), United Nations Economic Commission for Africa (ECA), Global System for Mobile Communications Association (GSMA), Internet Corporation for Assigned Names and Numbers (ICANN)
National	At the national level, most economic development plans include provisions for encouraging private sector involvement in the development of critical infrastructure.	

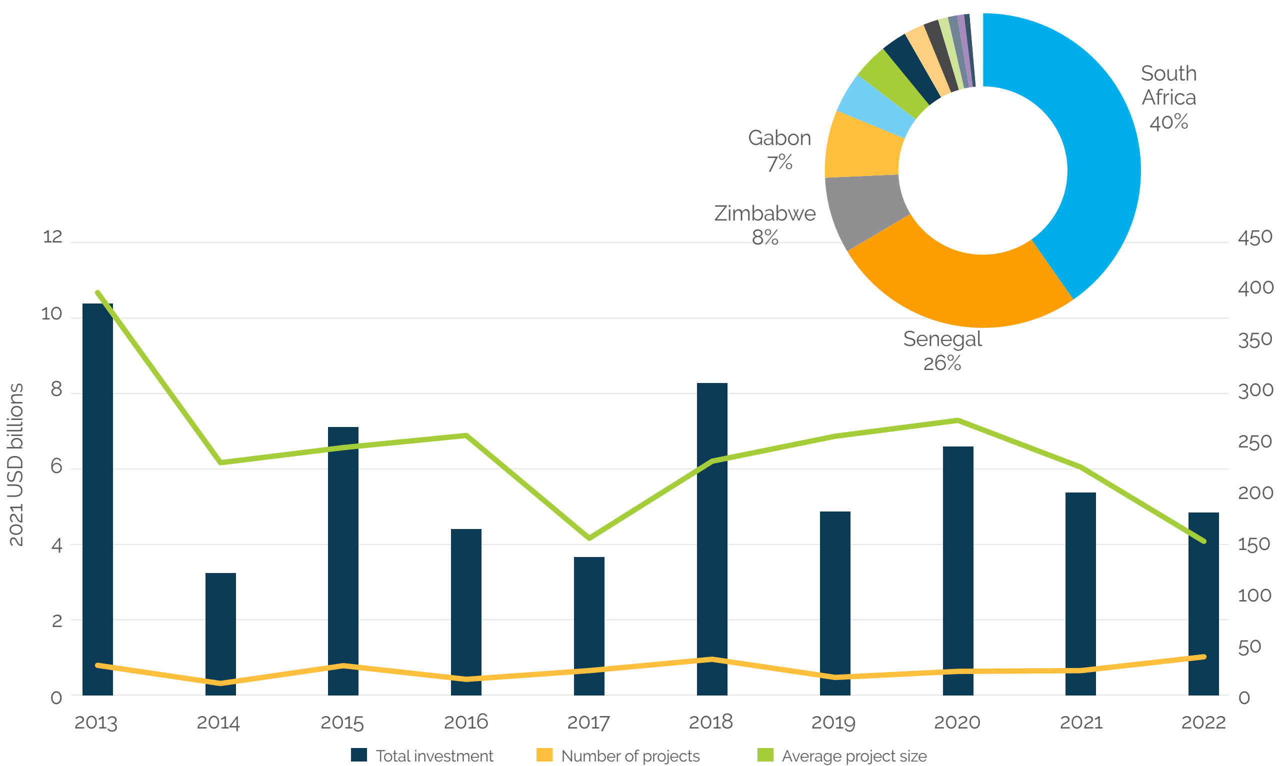
*Note: * The AFC has been instrumental in mobilising private capital for infrastructure projects across Africa and this is just one of several ongoing efforts.*

Source: Author's construct, 2024

However, according to the World Bank's (2022) Private Participation in Infrastructure (PPI) database, the volume of infrastructure investments that include private sector involvement in Africa is still low and has failed to reach the 2013 USD 10 billion high, as shown in **Figure 2**.

The implication of the analysis in this section is that there is a need for more innovative approaches to increasing private sector involvement in trade infrastructure development across the continent. Approaches should also target both the investing organisations and their potential sources of capital. One such source is geopolitical infrastructure funds. The sections that follow discuss this in detail.

Figure 2:
Investment commitments in infrastructure projects with private participation in low- and middle-income countries in Sub-Saharan Africa (SSA), 2013–2022, and PPI shares by country in 2022



Source: World Bank (2022)

3. Critical overview of international funding initiatives

Geopolitical infrastructure funds, typically mobilised by powerful states or coalitions, aim at economic returns and achieving strategic geopolitical outcomes. They serve as tools for fostering diplomatic ties, expanding economic influence and sometimes countering the influence of rival geopolitical powers. In the context of Africa, these funds have increasingly become a cornerstone for financing critical infrastructure in the transport, energy, telecommunications and water sectors. Other initiatives include the British government's African Infrastructure Investment Fund (AIIF3) and the G20's Global Infrastructure Facility (GIF).

This section explores three main global geopolitical funds, focusing on their implications and potential for Africa's trade infrastructure development. These funds include China's Belt and Road Initiative (BRI), the European Union's Global Gateway Initiative and the G7's Partnership for Global Infrastructure and Investment (PGI) plan. These three funds have been selected because they have been designed to further the soft power of their administrators or to counter the growing influence of other countries. Each of these initiatives presents unique opportunities, challenges and strategic considerations for African countries, aligning with the broader objective of enhancing trade infrastructure under frameworks such as the AfCFTA.

The analysis will highlight the opportunities these funds present for Africa, the caveats and strategic considerations African private sector actors must reckon with, and the potential alignment of these funds with Africa's infrastructure and trade goals. Understanding the dynamics of these geopolitical funds is crucial for African policymakers, investors and private sector entities looking to capitalise on these opportunities while navigating their complexities.

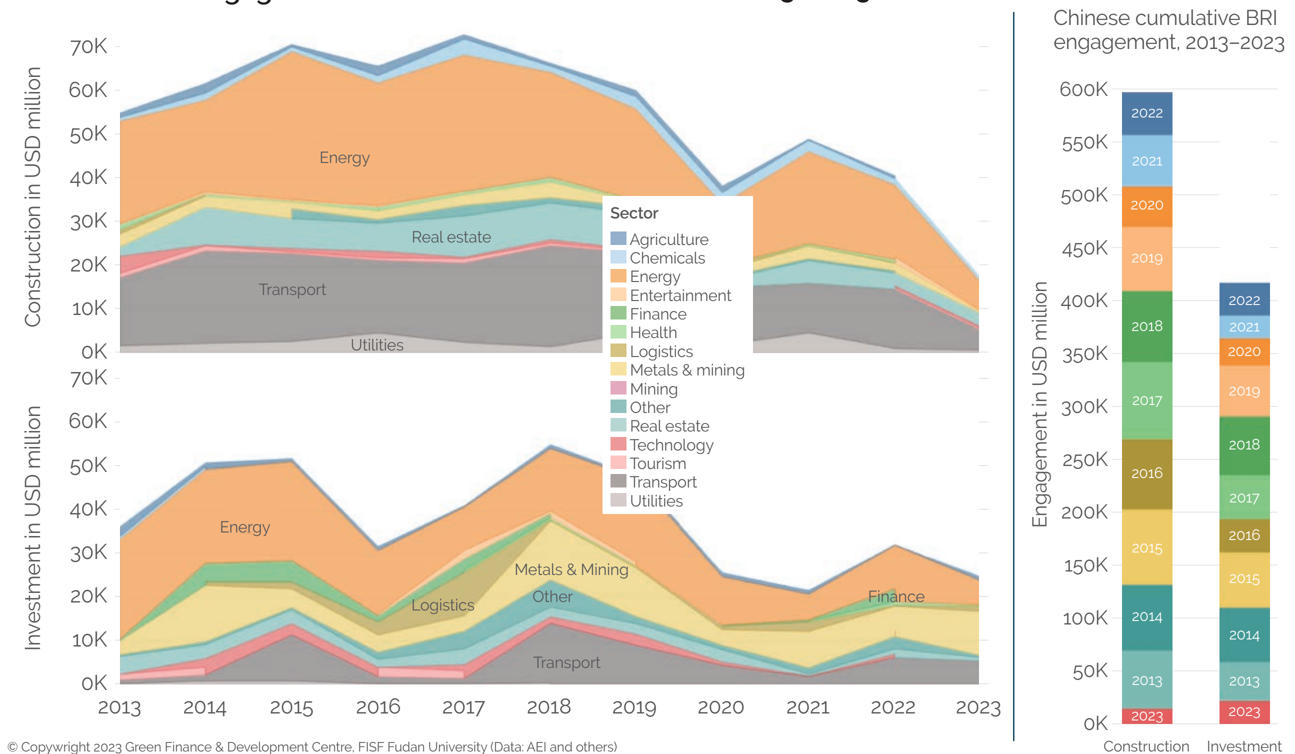
Belt and Road Initiative (BRI)

Since its inception in 2013, the BRI has grown into a vast network of infrastructure projects spanning several continents, with a significant focus on Asia, Africa and Europe. As of 2023, the initiative includes over 200 cooperation agreements that have been signed with 150 countries and 30 international organisations, underlining China's global ambitions (The State Council Information Office of the People's Republic of China, 2023). The BRI encompasses a wide range of infrastructure projects, such as highways, railways, ports and power plants, and has played a crucial role in enhancing connectivity and infrastructure development in participating countries. BRI projects are based on five priorities: policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond (Feingold, 2023). However, at its core, the BRI is a geopolitical fund meant to further China's foreign policy and soft power ideals. Beyond increasing global connectivity, its overarching aim is to strengthen and consolidate China's influence in the world.

It has been estimated that since its launch, total BRI engagement has exceeded USD 1 trillion, including USD 596 billion in construction contracts and USD 420 billion in non-financial investments (Nedopil, 2023). **Figure 3** shows these engagements have been in a wide range of sectors, including transport and logistics. Estimates of total BRI engagements in Africa are difficult to find. However, Chinese companies are reported to have signed USD 700 billion in construction contracts in the last ten years and completed an estimated project turnover of USD 400 billion (CGTN, 2023). According to the Chinese Loans to Africa Database (Boston University Global Development Policy Center, 2023), from 2013 to 2022, China committed around USD 114.4 billion in loans to African countries. Over the past decade, China has assisted in building over 6 000 kilometres of railways and roads, around 20 ports, more than 80 major power facilities and over 130 hospitals and 170 schools in African countries (CGTN, 2023).

Embedded in the provisions of the BRI are measures that encourage private sector involvement in infrastructure development. The Chinese private sector is already heavily involved in the financing and execution of infrastructure projects: As of 2019, it was reported that 274 out of the top 500 firms in China were participating in the BRI (Xinhua, 2019). The initiative has also sought the participation of private sector actors across the world and encourages public-private partnerships for infrastructure development. In addition, it supports the development of special economic zones, which are sometimes private investments. The BRI is, therefore, technically a key source of financing for African private sector actors that are seeking to be involved in the development of trade facilitation infrastructure. This is already the case with a project based in Nigeria, as **Figure 4** shows.

Figure 3:
Chinese engagement in the Belt and Road Initiative 2013–2023 H1



Source: Nedopil (2023)

Figure 4:
BRI trade facilitation project in Nigeria

The **Lekki Deep Sea Port** started full commercial operations in Lagos, Nigeria, in April 2023. It is one of the major BRI projects in Nigeria and was executed as a collaboration between Tolaram Nigeria in partnership with the China Harbour Engineering Company. These two formed an international consortium led by Lekki Port Investment Holding and were awarded the concession for 45 years by the Nigerian Ports Authority on a Build, Own, Operate and Transfer (BOOT) basis. The shareholding structure for the port includes China Harbour Engineering Company (52.5%), Tolaram (22.5%), the Lagos State Government (20%) and the Nigerian Ports Authority (5%).* It is expected to have an aggregate impact of USD 361 billion over its 45-year concession period.

*Note: * Read more at https://lekkiport.com/project-overview-structure/.*

Source: CNN

Global Gateway Initiative (GGI)

On different platforms, European Union (EU) leaders have expressed concerns about China's growing reach and influence in the developing world through its large infrastructure development deals. The GGI is therefore regarded as the EU response to China's BRI (Seibt, 2021). The GGI was launched in December 2021 as a EUR 300 billion fund, with half dedicated to Africa from 2021–2027. Its focus is soft and hard infrastructure for improved global connectivity, and it is administered by the European Investment Bank. A significant portion of the fund will be mobilised from EU private sector stakeholders, making the EUR 300 billion more of a fundraising target.

The GGI has faced a lot of criticism, including assertions that its size is too small and observations that it includes 'old' repackaged projects that were already planned by EU member states (Barbero, 2023). The initiative also experienced some implementation delays due to the emergence of the Russia–Ukraine conflict in Europe. However, the GGI has since announced key flagship projects in the developing world, including in Africa.

Also embedded in the structure of the GGI is a prioritisation of private sector involvement. Again, on the European side, there is an intention to mobilise a large portion of GGI funds from the private sector. The fund also allows for the participation of private sector actors on the side of recipient countries in a B2B (business-to-business) model for investment. It is unclear to what extent this opportunity has been explored by African private sector actors, but there is immense potential for

leveraging the GGI for resource mobilisation around trade infrastructure development. **Table 4** lists some African infrastructure projects related to trade facilitation that have already received GGI commitments.

Table 4.
Summary of discussed geopolitical funds

Fund	Belt and Road Initiative (BRI)	Global Gateway Initiative (GGI)	Partnership for Global Infrastructure and Investment (PGI)
Originator	China	European Union	G7 countries (led by the United States)
Launch year	2013	2021	2022
Scope	Global	Africa, Asia and the Pacific, Latin America and the Caribbean	Low- and middle-income countries
Focus areas	Infrastructure	Digital sector Climate and energy Transport Health Education and research	Climate change and the energy crisis Supply chain resilience Connectivity through digital infrastructure and transport networks Sustainable health systems Gender equality and equity
Global target	Not available	EUR 300 billion (2021–2027)	USD 600 billion (USD 200 billion by the United States) (2022–2027)
Africa target	Not available	EUR 150 billion	
Commitments	USD 1 trillion (2013–2023)	EUR 66 billion*	
Principles	Policy coordination Facilities connectivity Unimpeded trade Financial integration People-to-people bond	Democratic values and high standards Good governance and transparency Equal partnerships Green and clean Security focused Catalysing private sector investment	Advancing gender equality and equity Raising labour and environmental standards Promoting transparency, governance and anti-corruption measures
Sample trade infrastructure projects	Lekki Deep Sea Port	Extension of 37 km of the tramway network in the Rabat-Salé-Témara agglomeration (Morocco) Upgrading of the 118 km Tanta-El Mansoura-Damietta railway line (Egypt) Construction of land-based and maritime/port infrastructures (Mauritania) Mindelo port expansion (Cape Verde) Investment in Lobito Corridor Infrastructure (DRC)	Memorandum of understanding to facilitate up to USD 500 million in US export financing to Tanzania (including trade infrastructure) Expansion of Lobito Corridor

*Note: * This was shared as the volume of commitments by Ursula von der Leyen during the 2023 Global Gateway Forum. See https://audiovisual.ec.europa.eu/en/video/I-248442.*

Source: Author's construct, 2024

Partnership for Global Infrastructure and Investment (PGI)

The PGI was formally launched by the United States President Joe Biden and other G7 leaders in 2022. It aims to mobilise USD 600 billion in investment and provide support in four primary areas: climate and energy security, digital connectivity, health systems and health security, and gender equality and equity. The PGI emphasises a values-driven, high-standard and transparent approach to infrastructure investment, focusing on delivering quality, sustainable projects that can make a meaningful difference in people's lives globally. It also seeks to strengthen and diversify supply chains, which is expected to positively impact the global economy and resilience to global energy and supply chain challenges.

The PGI is a rebrand and evolution of the Build Back Better World (B3W) initiative launched in 2021 by the United States to focus on infrastructure financing in developing countries. It is also regarded as the US and G7's response to Chinese-led infrastructure development in the developing world. This aligns the PGI with the GGI; both funds have even collaborated on the Lobito Corridor trade infrastructure investment in Africa. Like the other initiatives discussed, the PGI includes a strong private sector component, targeting these actors as a source of a large percentage of the financing targets. A PGI factsheet on the US White House website overtly states: 'Through PGI, the United States welcomes public and private sector stakeholders leveraging their expertise and networks to advance complex transactions and strategic joint ventures to drive quality infrastructure investments in low- and middle-income countries.'[2] As shown in **Figure 5**, there are already ongoing collaborations between African private sector actors and the PGI. There is therefore an opportunity for wider participation by private sector actors, particularly in providing trade infrastructure in Africa.

Figure 5:
PGI investment commitment to Africa Data Centres

Africa Data Centres is a business owned by Cassava Technologies and has built the largest network of interconnected, carrier- and cloud-neutral data centre facilities. It has also built Africa's largest independent fibre network, stretching more than 73 000 km. It was announced in May 2023 that Africa Data Centres will receive a USD 300 million loan under the PGI to construct a world-class data centre in Ghana.

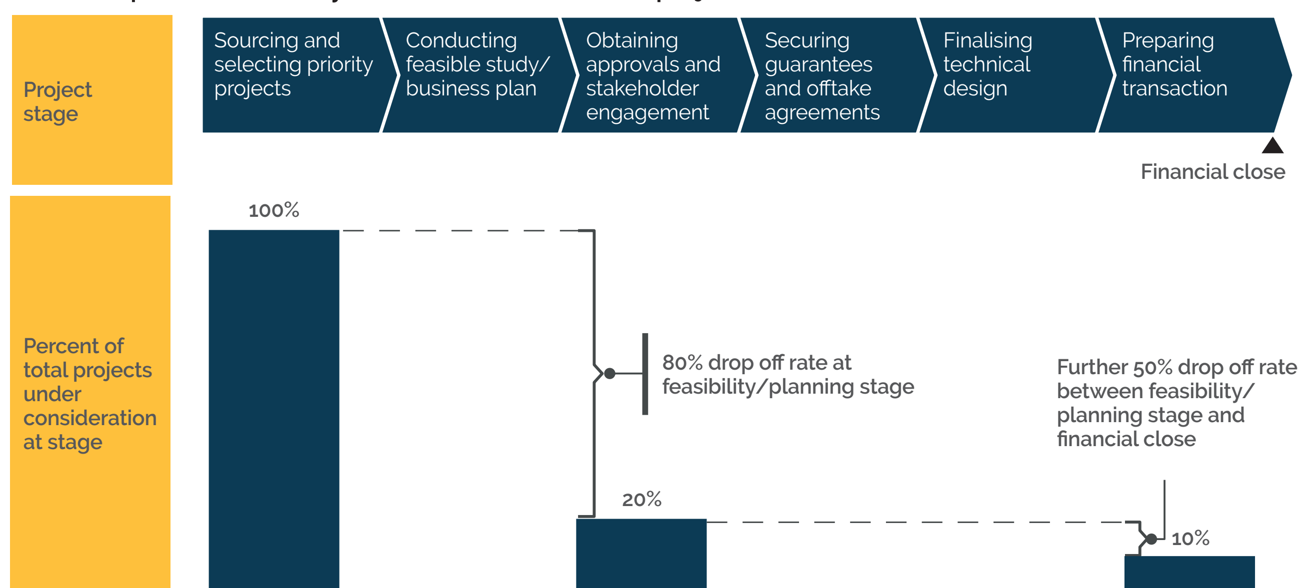
Source: White House (2023)

4. Leveraging geopolitical funds for private sector-led trade infrastructure development

The overview of the selected geopolitical funds presented in the previous section highlighted their suitability for private sector involvement. On the side of the fund administrators, investment targets have been set, and plans have been made to mobilise resources from their private sector actors. This is particularly the case for the GGI and the PGI. The BRI contains a larger proportion of state funds but invites the Chinese private sector to participate in the execution of the projects. The emphasis on private sector cooperation presents an opportunity for African private sector actors seeking to develop trade infrastructure.

However, the emphasis on private capital is also a challenge for the funds. Mobilising private finance for what will essentially be development projects is a tall task, given the expectations of profit. African trade infrastructure projects can be profitable, but this will often be in the long term. There has also been negligible growth in private finance for development projects (OECD, 2023a). Linked to this is the fact that private investors have stricter requirements for the projects they select, and African infrastructure projects are sometimes regarded as not being feasible. From a global perspective, an analysis by the World Bank asserts that although there is technically sufficient capital to address global infrastructure needs, the challenge is the bankability of these projects (Zelikow & Savas, 2022). At an estimated USD 1.2 trillion in 2022, the current pipeline

Figure 6:
Drop off in feasibility of African infrastructure projects



Source: Retrieved from Lakmeeharan et al. (2020)

of investable greenfield projects (many of which will not be ready in the short term) in emerging markets is less than half of the estimated annual need of USD 2.6 trillion (Zelikow & Savas, 2022). A report by McKinsey (2020) showed that less than 10% of African infrastructure projects reach financial close and 80% of projects fail at the feasibility and business plan stage (Figure 6).

The challenge lies in the preparation of packaging of African infrastructure projects in ways that deem them bankable to private investors. This often demands close coordination with governments, which sometimes presents a hurdle for private sector-led projects (Pleeck & Gavas, 2023), since most African governments and investment agencies are not equipped for such action. However, this challenge presents several opportunities for African private sector actors leveraging geopolitical funds and strengthens the case for their increased involvement in infrastructure projects. Some of these opportunities are listed below.

Opportunities

1. Access to large-scale financing: Geopolitical funds, including the BRI, GGI and PGI, offer significant financing opportunities. These funds are designed to mobilise vast resources, providing a substantial financial base for private sector-led infrastructure projects.

2. Public-Private Partnerships (PPPs): Geopolitical funds' emphasis on PPPs opens avenues for private sector entities to engage in large-scale projects. PPPs can mitigate risk, leverage public sector strengths and benefit from private sector efficiency and innovation.

3. Market expansion and diversification: For African private sector actors, participating in BRI, GGI or PGI projects can offer access to new markets and opportunities for diversification. This exposure can be crucial for business growth and resilience.

4. Technology and knowledge transfer: Collaborating on international projects under these funds can facilitate technology and knowledge transfer. This aspect is particularly beneficial for the African private sector, which often seeks advanced technological inputs and expertise.

5. Enhanced global visibility and credibility: Involvement in high-profile projects funded by major international initiatives can enhance the global visibility and credibility of African private sector companies.

6. Capacity building: Geopolitical funds often come with capacity-building components, helping to strengthen the institutional and operational capabilities of private sector entities in Africa.

7. Addressing infrastructure gaps: By participating in these initiatives, the African private sector can play a direct role in addressing the continent's critical infrastructure gaps, fostering regional trade and connectivity in the context of the implementation of the AfCFTA.

8. Sustainable development: Many of these funds have a focus on sustainable and environmentally friendly projects, aligning with global sustainable development goals and providing opportunities for African businesses to engage in green initiatives.

Despite the opportunities presented by geopolitical funds, there are challenges that will need to be addressed.

Challenges

1. Dependency and debt sustainability: Dependency on external funding and the risk of increasing debt burdens for host countries are significant concerns. This can impact the long-term economic sustainability of the African private sector and the host countries. Although geopolitical funds have grant components, they are often provided in the form of loans to governments or private sector actors. Infrastructure development projects that rely on this kind of funding often face a greater risk profile compared to those financed entirely through private means. This heightened risk is due to the complex nature of these projects, which, without government support, might not meet the traditional criteria for investment attractiveness or bankability. As one example, debt sustainability is regarded as one of the reasons why Chinese lending through the BRI has declined (Dezenski & Birenbaum, 2024). Countries like Djibouti and Zambia have accumulated debts to China equivalent to at least 20% of their annual GDP. In Djibouti's case, Chinese debt is around 45% of its GDP (African Defense Forum, 2023). These debts are often tied to large infrastructure projects, leading to concerns about debt sustainability and the potential for 'debt traps'.

2. Contract terms and conditionalities: Due to restrictive contract terms, Chinese lending practices have drawn criticism. For instance, Chinese state-owned lenders often require borrowers to maintain a minimum cash balance in an offshore account accessible to the lender (Gelpern et al., 2021). This can limit the financial flexibility of private sector entities and expose them to undue leverage by the lender. Some countries receiving Chinese aid have become dependent on China in strategic economic sectors due to Chinese-dominated investments, leading to institutionalised dependency. There is also the challenge of cross-conditionality through Chinese bank funding that often gives China leverage over recipient nations, allowing them to impose additional demands outside aid and loan agreements. This includes cutting off funds if recipients do not meet further conditions. There are also sometimes confidentiality clauses that impact the transparency of the agreements. Another related issue is that some geopolitical loans stipulate the use of machinery and contractors from the lending countries, something referred to as 'tied-aid' (Sun, 2014). This requirement can increase project costs and dependency on foreign entities, reducing the potential for local capacity building and technology transfer.

3. Awareness and accessibility: A major challenge for African private sector actors is the lack of awareness about geopolitical funds. While these funds are well known in the international development space, they are not as widely recognised in the African business and private sector circles. This lack of awareness hinders the ability of local businesses to seek and utilise these funding opportunities. Even when aware, accessing these funds can be daunting due to complex application processes, stringent eligibility criteria and a lack of resources or expertise to navigate these processes effectively. For example, internet search results for these funds provide little to no information about the process for accessing them. This is partly because they are often negotiated between governments with limited involvement of the domestic private sector. This difficulty serves as a barrier to private sector involvement in infrastructure financing.

4. Red tape and bureaucracy: The bureaucratic challenges associated with international funding – including extensive documentation, strict compliance requirements and long approval processes – can be significant barriers, especially for smaller enterprises. A report by the OECD (2017) highlighted how bureaucratic obstacles and regulatory complexities can impede investment flows into Africa, suggesting that simplification of procedures and enhanced transparency are critical for improving access to funding.

5. Sustainability concerns: A significant risk associated with leveraging geopolitical funds like the BRI is sustainability, which encompasses environmental, social and governance (ESG) issues. Notably, the AidData report (Malik et al., 2021) found that roughly 35% of BRI projects faced challenges like environmental incidents and labour violations. The BRI has since adopted a 'green' agenda, and sustainability was embedded into the design of the GGI and PGI. The focus on sustainability issues underlines the importance of incorporating ESG criteria in project planning and implementation to ensure that development efforts are both impactful and sustainable. However, it also means that private sector actors looking to access these funds will need to be able to demonstrate the sustainability of their projects. Meeting the high international standards required by these funds can be a significant challenge for local firms, particularly those with limited experience in such areas.

6. Geopolitical dimensions: The strategic interests of funding countries often influence the allocation of geopolitical funds. The aggression by Russia in Ukraine, for example, has highlighted a change in Western development policy. Now, issues of development are intertwined more than before with geopolitical and geoeconomic concerns, such as the security of energy and raw materials (Klingebiel, 2023). This can create alignment challenges, where projects may be selected based on their geopolitical significance rather than the developmental needs of African countries. The disproportionate focus on strategic minerals is one example of this.

7. Unstable macroeconomic environments: Unstable macroeconomic conditions in African countries, such as currency fluctuations, policy changes and economic volatility, can adversely impact the viability and returns on investment for infrastructure projects. A study by Chinzara et al. (2023) found a negative impact of macroeconomic instability on PPI. As one example, Julius Berger Nigeria, an infrastructure development firm, has suffered financial losses due to the unstable foreign exchange market in Nigeria (Tokede, 2023). Infrastructure investments are particularly sensitive to macroeconomic fluctuations due to their long-term nature.

8. Collaboration challenges with governments: Private sector entities may face challenges in collaborating with governments on infrastructure projects. These can include bureaucratic delays, policy uncertainties and difficulties in aligning project objectives with governmental agendas. There is also the challenge of bounded rationality, especially in the context of public-private partnerships where both actors agree to contractual terms that may not sufficiently take into consideration future risks and threats. These collaboration challenges can contribute to the failure of infrastructure development projects. A report by the United Nations Conference on Trade and Development (UNCTAD, 2016), using World Bank data, states that about 60 PPP projects valued at USD 1 billion have been cancelled in Africa.

5. Promoting African agency in trade infrastructure development: Recommendations

As Africa continues to navigate the complexities of global trade and infrastructure development, it is imperative to focus on promoting African agency in these spheres. The dynamic nature of international investments, especially in the context of initiatives like the BRI, GGI and PGI, presents both opportunities and challenges for the continent. This section explores strategies and policy recommendations that can empower African entities – governments, private sectors and civil societies – to assert their interests more effectively in project negotiations and engagements. The goal is to move beyond just being recipients of international investments to becoming active, informed participants who can shape the outcomes in ways that align with the continent's developmental goals and priorities. By bolstering negotiation capacities, refining project selection processes and formulating supportive policies, African stakeholders can ensure that trade infrastructure developments are not only economically beneficial but also socially equitable and sustainable. At the centre of these strategies is elevating the role of the African private sector as a conduit for geopolitical funds for infrastructure development. The private sector has capacities that can improve African agency in the utilisation of these funds, and their involvement should therefore be promoted.

The following recommendations are being put forward to help increase the participation of the private sector in trade infrastructure development under the AfCFTA by facilitating their access to geopolitical funds.

For African governments

1. Develop comprehensive infrastructure strategies: Align national infrastructure plans with AfCFTA goals, ensuring projects enhance regional connectivity and trade. This approach should prioritise high-impact projects that offer significant returns in terms of trade facilitation and economic integration.

2. Diversification of funding sources: To avoid over-reliance on any single source of funding, African countries should diversify their sources of infrastructure financing. This includes exploring alternative funding mechanisms such as domestic resource mobilisation, public-private partnerships and regional funding initiatives.

3. Strategic project selection: Project selection for geopolitical funds should also be done in partnership with private sector actors. There is also a need to allocate resources for developing comprehensive feasibility studies and business plans to increase the bankability of projects and attract more private investment.

4. Increased private sector engagement: Existing platforms should be strengthened, and the private sector should be involved at the early stages of multilateral negotiations. Enabling environments for PPPs should be created by offering incentives, streamlining regulatory processes and providing guarantees to mitigate risks for private investors.

5. Improve institutional capacity: There is a need to strengthen the capacity of public institutions for project development and management and ensure effective utilisation of geopolitical funds. There is also a need to enhance governance structures and financial transparency to increase investor confidence. Clear legal frameworks for infrastructure investments and dispute resolutions should be established.

For the African private sector

1. Invest in geopolitical expertise for resource mobilisation: Understanding the intricacies of global geopolitics is pivotal for African entities looking to engage in trade infrastructure development. This involves developing a nuanced understanding of the geopolitical interests and strategic goals of various international actors and funders, including the motivations behind initiatives like the BRI, the GGI and the PGI. African entities should invest in acquiring expertise on how geopolitical dynamics influence funding decisions and project approvals. They should also clearly understand the conditionalities, risks and trade-offs that come with leveraging these funds. This knowledge can be pivotal in crafting proposals and negotiation strategies that align with the interests of funders while safeguarding Africa's developmental objectives. There is also a need to develop robust negotiation skills to better navigate the terms of geopolitical funds. This includes advocating for more favourable contract terms that minimise undue leverage and promote financial flexibility.

2. Invest in comprehensive project preparation: It is essential for African entities to allocate substantial resources to the early stages of project development. This includes conducting thorough feasibility studies, market analyses and environmental impact assessments. Ensuring that projects are technically and financially sound is crucial for attracting investment. Detailed financial modelling, exploring various funding mechanisms, and assessing long-term economic viability should be integral parts of the planning process.

3. Form strategic alliances: Consortiums and alliances should be built to enhance capabilities and increase competitiveness in accessing and executing large-scale infrastructure projects. Consortiums should not only include national firms but also regional firms in other African countries. This will be essential for cross-border infrastructure development.

4. Strengthen government relations: Although governments can be tricky to navigate, they cannot be taken out of the equation for major infrastructure projects. Geopolitical funds in particular will require governments to be engaged one way or the other. There is a need for private sector actors to build their capacity to collaborate with governments while being pragmatic about the limitations and risks this presents.

5. Leverage international partnerships: There is a need to engage with international partners for knowledge transfer, technical assistance and co-financing opportunities. Partnerships with organisations domiciled in the countries that control these funds will be one way to improve the accessibility of the funds.

6. Focus on sustainable and inclusive projects: These geopolitical funds are not intended solely for profit-making ventures; they also target sustainable development goals. There is therefore a need to align projects with these goals and ESG standards, ensuring projects are environmentally sound and socially inclusive.

For geopolitical fund owners

1. Align investments with local priorities: Despite the geopolitical incentives behind the funds, there is a need to ensure that funded projects align with the priorities and needs of African countries, particularly in supporting the objectives of the AfCFTA.

2. Provide targeted technical assistance: Fund owners should offer technical support in project preparation, feasibility studies and capacity building for local entities to enhance the quality and success rate of infrastructure projects.

3. Innovative financing models: There is a need to further strengthen financing models that reduce risk and increase attractiveness for private investors, such as blended finance or risk-sharing instruments.

4. Increase engagement and presence on the ground: Fund owners should consider strengthening local offices to foster closer collaboration with African governments and private sector entities and to gain a better understanding of local contexts and needs. There is also a need to more transparently share information on the modalities of access to these funds for interested private sector actors.

For intermediary organisations (including development finance institutions such as the World Bank and the AfDB and other multilateral institutions)

1. Facilitate access to information and training: Intermediary organisations can provide African entities (both public and private) with information on available funds and training on how to access and manage these funds effectively.

2. Broker partnerships between stakeholders: These organisations are well positioned to act as intermediaries to connect African private sector entities with geopolitical fund owners and government projects.

3. Support project preparation and development: These organisations can also assist in the preparation and development of infrastructure projects to meet the standards required by international investors and funders. This will also include providing guidance on managing various risks associated with large-scale infrastructure projects.

4. Advocate for enabling policies: There is a need to work with governments to advocate for and implement policy reforms that create a conducive environment for private sector investment in infrastructure. This can draw on best practices observed in the global context that are tailored to domestic realities.

6. Conclusion

This paper has explored the multifaceted landscape of trade infrastructure development in Africa, with a particular focus on the role of private sector involvement and the leveraging of geopolitical funds. The analysis underscores the criticality of infrastructure in bolstering Africa's economic growth and the pivotal role of the AfCFTA in this context. While opportunities abound, particularly through initiatives like the BRI, GGI and PCI, challenges such as lack of bankable projects, bureaucratic hurdles and geopolitical complexities persist.

To navigate these challenges, a collaborative approach involving African governments, private sector entities, geopolitical fund owners and intermediary organisations is imperative. African governments are tasked with creating enabling environments and aligning infrastructure development with continental trade goals. The private sector, on the other hand, must actively engage in early project stages and form strategic alliances to leverage these opportunities effectively. Furthermore, the role of geopolitical fund owners and intermediaries in fostering transparent, accessible and sustainable funding mechanisms cannot be overstated.

The successful implementation of these recommendations hinges on a balanced synergy between global investment strategies and Africa's development aspirations. As such, the continent's journey towards robust and sustainable trade infrastructure development, underpinned by private sector dynamism and supported by strategic international investments, is not only feasible but imperative for its economic transformation.

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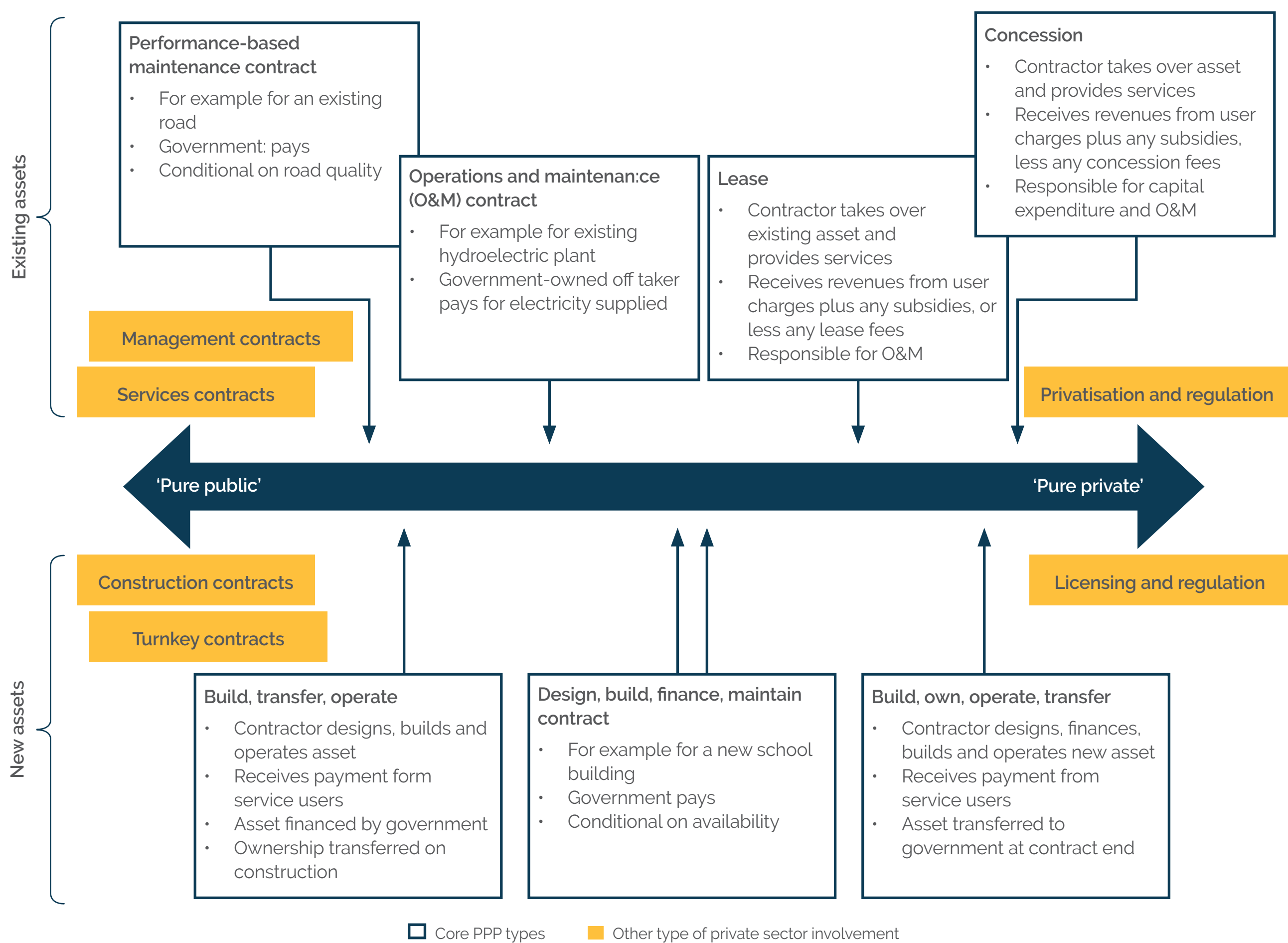
Appendix

Models for public–private partnerships in infrastructure development



Sources: WBI 2012; World Bank Institute and Public Private Infrastructure Advisory Facility 2012 (https://www.ppiaf.org/documents/3118).

Endnotes

1. Read more at https://au.int/en/ie/pida.
2. See https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/.

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