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Bolstering AfCFTA Infrastructure: The Role of African IFIs

KESAOBAKA NANCY MOPIPI

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Executive summary

Attracting private capital to the African continent is crucial for sustainable economic growth and development and enabling the success of the African Continental Free Trade Area (AfCFTA), yet conventional approaches often fall short of unlocking its full potential. While traditional investment strategies and development finance are important, the unique challenges and opportunities across the diverse African landscape necessitate more innovative solutions. In this context, African international financial institutions (IFIs) play a key role in fostering creativity and de-risking investments to mobilise greater private capital for AfCFTA-related projects. To fulfil this mandate more effectively, this policy insight advocates for a more institutionalised collaboration framework among IFIs and other stakeholders.

The AfCFTA's role in improving intra-African trade

For decades, Africa has strived for regional integration, beginning in the post-independence era and evolving through various organisations and initiatives towards the present-day pursuit of a continent-wide free trade area under the AfCFTA. The level of intra-African trade is significantly below global averages. In 2022, intra-regional trade was around 13.7%. This is in stark contrast to intra-regional trade levels in Asia and Europe, which average around 60% and 70% respectively.[1] According to World Bank estimates, the AfCFTA was estimated to have the potential to increase Africa's exports to the rest of the world by 32% by 2035 and boost foreign direct investment by 111%–159%.[2]

Further to the above, intra-African trade is said to have grown by 3.2% to $192.2 billion in 2023 despite global economic challenges, with its share of total African trade rising to 14.9%, an increase driven by coordinated continental initiatives under the AfCFTA.[3] Southern Africa led this growth, driven particularly by South Africa, which, despite a slight dip in trade value, remained the continent's top intra-African trading nation. Regional disparities persist, but overall progress reflects strong, coordinated efforts to deepen economic ties across the continent.

Accordingly, the AfCFTA is an initiative that requires broad support to ensure it lives up to its expectations. A key aspect of this is the development of enabling infrastructure across the continent.

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1 Hippolyte Fofack, "The Future of African Trade in the AfCFTA Era", Brookings, February 23, 2024.

2 World Bank, *The African Continental Free Trade Area: Economic and Distributional Effects*, Policy Research Report (World Bank Publications, 2020).

3 Afreximbank, *African Trade Report 2024* (Afreximbank, 2024).

Understanding the infrastructure deficit

Africa has historically lagged in terms of infrastructure development. According to the Africa Finance Corporation (AFC), the continent has a lower physical capital stock compared to other regions.[4] Further, the International Monetary Fund (IMF) has estimated that 'Africa's total physical capital stock amounts to around 7.4% of that in advanced economies, 16% of China's and 46.4% of South America's, even though Africa is 70% larger than South America.'[5] It follows that there is an urgent need for the development of infrastructure on the continent. This need has a direct impact on the success of the AfCFTA as infrastructure is vital to create an environment that fosters investment and improves livelihoods. It drives economic growth, alleviates poverty and enhances the delivery of essential services.[6]

Africa's infrastructure deficit is largely manifest in the areas of transport, energy and water, as well as information and communication technology (ICT) infrastructure.[7] It is estimated that the infrastructure financing need on the continent is about $130–$170 billion annually, yet only about $80 billion is raised.[8]

TABLE 1 ESTIMATED ANNUAL INVESTMENT NEEDS

Infrastructure sub-sector	Target by 2025	Annual cost ($ billions)
Power	100% urban electrification 95% rural electrification	$35–$50
Water supply and sanitation	100% access in urban areas 100% access in rural areas	$56–$66
Information and communication technology	Universal mobile coverage 50% of population within 25km of fibre backbone 10% internet penetration via fibre-to-home/premises	$4–$7
Road and other transport (air, rail and port)	80% preservation 20% development	$35–$47
TOTAL		$130–$170

Source: African Development Bank, *African Economic Outlook 2018* (AfDB, 2018)

4 Africa Finance Corporation, Annual Report 2023 (AFC, 2024).

5 AFC, Annual Report 2023.

6 Xolani Thusi and Victor H. Mlambo, "The Effects of Africa's Infrastructure Crisis and Its Root Causes", *International Journal of Environmental, Sustainability and Social Science* 4, no. 4 (2023): 1 055.

7 Augustine Edobor Arimoro, "Private Sector Investment in Infrastructure in Sub-Saharan Africa Post-COVID-19: The Role of Law", Public Works Management & Policy 27, no. 2 (2022): 109; Kannan Lakmeeharan et al., "Solving Africa's Infrastructure Paradox", March 6, 2020.

8 Africa-Europe Foundation and AUDA–NEPAD, "A Technical White Paper – The Missing Connection: Unlocking Sustainable Infrastructure Financing in Africa", 2025.

The lack of adequate infrastructure within the trade context manifests in deficiencies across transportation networks, power supply and telecommunications access. This culminates in elevated transportation costs, logistical delays and diminished global competitiveness.[9] Transport costs have been estimated to be more than 50%–175% higher in Africa than global averages due to the lack of infrastructure.[10] According to the UN Economic Commission for Africa, the transport equipment required by 2030 costs about $411 billion.[11] According to the Africa Transport Policy Program, high transport costs account for 40% of the final price of goods in Africa.[12] For instance, Ugandan private sector actors observe that importing goods from China to Uganda is often cheaper than importing goods from Nigeria, highlighting the significant costs associated with intra-African trade.[13] By sector, it has been estimated that the largest portion of Africa's infrastructure financing gap is in transport infrastructure (73%), followed by education (10%) and energy (10%), reflecting decades of underinvestment in areas critical for the continent's development.[14] Research shows that a one-point improvement in transport infrastructure development is associated with a 1.2% increase in intra-African trade.[15]

African IFIs as key partners in infrastructure development

International financial institutions (IFIs) play a crucial role in global economic stability and development. They provide financial assistance, policy advice and technical expertise to countries in need. These institutions, which include the World Bank, the AfDB and other multilateral and regional development banks, are pivotal in addressing issues such as poverty reduction and infrastructure development. While they also play a significant role in crisis management, IFIs drive future-oriented goals, helping to transition economies through.

9 Larabi Jaïdi, Bruce Byiers and Saloi El Yamani, "Fostering Investment and Inclusivity in Africa's Continental Free Trade Area" (Policy Briefing 182, ACET, ECDPM, ISS and Policy Centre for the New South, 2024), 8.

10 AU, "African Ministers Commit to Accelerate Infrastructural Development to Boost Africa's Competitiveness and Participation in Global Market", press release, September 21, 2023.

11 UN Economic Commission for Africa, *The African Continental Free Trade Area and Demand for Transport Infrastructure and Services*, Policy Research Report, 2022.

12 AFC, State of Africa's Infrastructure Report, 2024.

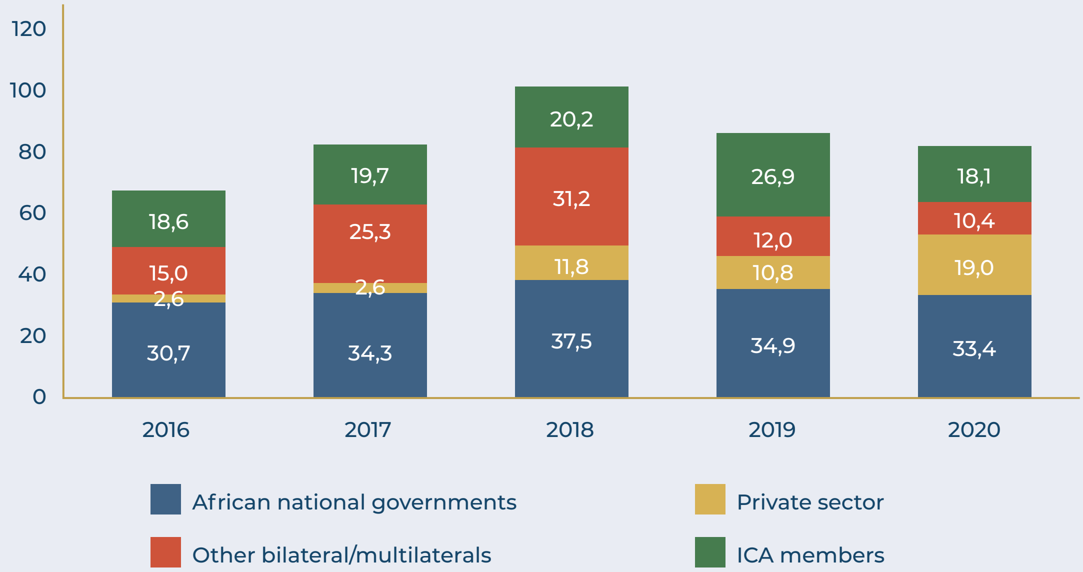
13 Jaïdi, Byiers and Yamani "Fostering Investment".

14 African Private Capital Association, "Private Capital Investment in Africa's Infrastructure", February, 2025; Adamon Mukasa and Anthony Simpasa, "Scaling Up Financing is Key to Accelerating Africa's Structural Transformation", African Development Bank Group, August 2, 2024.

15 Moukaila Mouzamilou Takpara et al., "Transport Infrastructure and Intra-African Trade: A New Empirical Evidence", (Working Paper APRWPS/2024/11, Afreximbank, September 2024).

Taking stock – the impact of African IFIs on the continent

Figure 1 Total infrastructure financing commitments by source (in $ billions), 2016–2020



Source: AfDB, *Infrastructure Financing Trends in Africa 2019–2020* (AfDB, 2021

While infrastructure needs across the continent are dire, African IFIs have been at the forefront of development efforts, collectively investing billions in Africa's growth. The AfDB alone has invested about $184 billion since its inception.[16] The AFC has invested about $15 billion since its inception. From 2016–2023, the African Export-Import Bank (Afreximbank) had disbursed over $104 billion.[17]

Through debt, equity and blended finance models, African IFIs have channelled billions of dollars into projects across sectors including energy, transportation, ICT and water infrastructure, often playing a catalytic role in attracting private finance. Below are a few examples.

16 AfDB, "2024 Year in Review: First Visit by a U.S. Secretary of State to the African Development Bank, Waves of Investment in the African Development Fund… the Bank in Action for 60 Years", press release, December 20, 2024.

17 Afreximbank, "Afreximbank Delivers Strong Financial Results for the Nine Months Ended 30 September 2024, Surpassing Prior Year's Performance Despite a Challenging Operating Environment", press release, November 18, 2024.

Innovative finance models by African IFIs

Blended finance is a strategic approach that leverages development finance to attract additional private and commercial investment for sustainable development in developing countries. This is achieved by using concessional or grant components provided by governments and multilateral lenders to reduce investment risks, making projects more appealing to private investors. This method, also referred to as catalytic capital, can be structured in various ways to mobilise additional funding.[18] A notable example is the Infrastructure Climate Resilience Fund by the AFC, which attracts private sector finance to support climate-resilient infrastructure projects.[19] It uses a capital structure that blends commercial and concessional equity to enhance the bankability of climate-resilient infrastructure projects. The fund aims to attract capital from institutional investors by providing a first-loss shield to de-risk investments, ultimately supporting the integration of climate resilience into infrastructure projects.[20]

Further, African IFIs have issued green bonds to finance environmentally sustainable infrastructure projects. The AfDB, for instance, has launched green bonds to support renewable energy and climate-resilient projects.[21]

Partnerships and collaborative initiatives

African IFIs support public–private partnerships (PPPs) to leverage private sector expertise and capital for infrastructure projects. They provide technical assistance to governments to structure and manage PPP projects effectively. In collaboration with Africa50, Kenya is currently working on Africa's first private transmission lines under PPP frameworks, with two projects valued at $300 million and spanning 237km.[22]

One of the notable collaborative initiatives that has been adopted is the Programme for Infrastructure Development in Africa (PIDA), a joint initiative between the AfDB, the AU Commission and AUDA–NEPAD (AU Development Agency–New Partnership for Africa's Development). PIDA was established in 2012 with the aim of supporting the development of physical infrastructure within the transport, energy, transboundary water and telecommunications sectors.[23] It facilitates coordinated efforts and resource mobilisation

18 Liza Rose Cirolia, Andrea Pollio and Edgar Pieterse, "Infrastructure Financing in Africa: Overview, Research Gaps and Research Agenda" (Research Paper, African Centre for Cities, 2021), 15.

19 AFC, *State of Africa's Infrastructure*; European Investment Bank, "ACP Infrastructure Climate Resilient Fund", May 16, 2024.

20 AFC, *State of Africa's Infrastructure*; Lennox Yieke, "AFC Leads Shift to Climate Resilient Infrastructure", African Business, December 1, 2023.

21 AfDB, "African Development Bank Launches a New USD 2 Billion 4.125% 3-Year Social Global Benchmark Due 25 February 2027", press release, January 22, 2024.

22 AFC, *State of Africa's Infrastructure*.

23 "About PIDA", Programme for Infrastructure Development in Africa, accessed April 20, 2025, https://www.au-pida.org/pida-history/; Luke Anami, "Here is the Biggest Hurdle to AfCFTA Take-Off", The East African, July 29, 2023.

for large-scale projects. It is important to note, however, that progress under PIDA has been quite slow, especially in terms of mobilising private sector financing. The estimated costs of projects under PIDA are about $360 billion.

Afreximbank is committed to becoming Africa's foremost regional integration bank and playing a pivotal role in supporting the implementation of the AfCFTA.[24] It has set up the Intra-African Trade Initiative to support intra-regional exchange and offer new uncommitted short-term revolving trade finance facilities under the Afreximbank Trade Facilitation Programme. Afreximbank's intra-African trade financing is on course to reach $40 billion on a revolving basis by 2026.[25]

The fund is a pioneering initiative uniquely tailored to address the specific challenges and limitations associated with the implementation of the AfCFTA

The AfCFTA Adjustment Fund, a collaboration between Afreximbank, the AfCFTA Secretariat and the AU Commission, was established in 2023.[26] The fund receives financial contributions from State Parties and development partners, providing grants, technical assistance and concessional and commercial financing.[27] It consists of a base fund, general fund and credit fund. Given that the base fund is structured to make use of state contributions, the general and credit funds are more relevant to this paper as they aim to leverage concessional finance for infrastructure development and attract commercial funding to improve competitiveness, respectively.[28] The resource mobilisation framework within the general fund is designed to secure concessionary finance from IFIs for government projects and PPPs, with a particular emphasis on infrastructure financing. The credit fund seeks to channel commercial debt and direct investment towards public and private sector, specifically targeting small and medium enterprises (SMEs), emerging corporates and large corporates. The resulting financial instruments include working capital and short-term loans, term loans and syndicated loans.[29] Afreximbank has committed $1 billion towards the AfCFTA Adjustment Fund. However, the fund requires an estimated $10 billion over the next 5–10 years.[30] The fund is a pioneering initiative uniquely tailored to address the specific challenges and limitations associated with the

24 Benedict Oramah, "Afreximbank in the Era of the AfCFTA", *Journal of African Trade*, no. 8 (2021).
25 Neil Ford, "Turning the AfCFTA Dream Into Reality", *African Business*, June 19, 2023.
26 Afreximbank, "AfCFTA Secretariat and Afreximbank Sign AfCFTA Adjustment Fund Host Country Agreement with the Republic of Rwanda", press release, March 13, 2023.
27 AU, AU Echo 2023, Annual Magazine; Gerhard Erasmus and Trudi Hartzenberg, "Recent African Union Assembly Decisions on AfCFTA Support", TRALAC, April 11, 2022.
28 Afreximbank, AfCFTA Adjustment Fund Portal, accessed April 20, 2025, https://microsite.peaqock.com/resource-mobilization.
29 Afreximbank, AfCFTA Adjustment Fund.
30 AU, AU Echo.

implementation of the AfCFTA. It is dedicated to facilitating smooth transitions, mitigating economic disruptions and ensuring member states can leverage AfCFTA benefits while effectively managing constraints.

Not a one-size-fits-all approach

It is important to recognise that, in response to the continent's multifaceted development needs, African IFIs adopt diverse operational and business models that extend beyond solely addressing the urgent infrastructure financing gap. For example, the AfDB's broader focus on sustainable economic development and social progress is evident in its 'High 5' priorities, which include efforts to light up and power Africa, feed the continent, promote industrialisation, enhance regional integration and improve the quality of life for its people. This contrasts with the specific infrastructure development mandate of the AFC and the trade-focused mission of Afreximbank.

> African governments remain the largest investors in infrastructure development, contributing over 40% of total infrastructure financing

Numerous initiatives have supported the infrastructure development agenda, far too many to detail comprehensively here. However, African IFIs are acutely aware of the continent's infrastructure gap and recognise their crucial role in addressing it. Nevertheless, African governments remain the largest investors in infrastructure development, contributing over 40% of total infrastructure financing.[31]

Where is the gap?

While African IFIs have been at the forefront of initiatives on the continent, a significant challenge remains: the burden of financing continues to fall largely on African governments. However, limited fiscal space, constrained by rising debt-to-GDP and low tax-to-GDP ratios, undermines their ability to sustain this role.[32] The structural constraints hamper governments' capacity to invest in infrastructure.[33] This is compounded by the fact that, broadly speaking, low- and middle-income countries often require governments and multilaterals to draw in the private capital required.[34] The infrastructure financing

31 Africa-Europe Foundation, "A Technical White Paper".
32 AFC, *State of Africa's Infrastructure*.
33 AFC, *State of Africa's Infrastructure*.
34 Global Infrastructure Hub, "Over Half of Private Infrastructure Investment in Developing Markets Need Co-Financing From Non-Private Institutions", July 16, 2024.

gap remains substantial, primarily due to insufficient participation from private investors as well as a lack of more targeted coordinated efforts among IFIs.

Recommendations

Towards a new coordination framework for banks on the continent

The most significant issue is the lack of coordination among the broad stakeholders on the continent. While African IFIs have collaborated on various aspects, through the creation of specific initiatives, there is a need to strengthen coordination among major African IFIs such as the AfDB, AFC and Afreximbank; sub-regional banks, such as the Trade and Development Bank and the West African Development Bank; national development banks; and African governments, particularly to attract private sector capital.

While platforms such as Africa50 and the African Investment Forum exist, they tend to engage larger investors and multilateral development banks. A more systematic method of coordination would ensure that larger African IFIs are able to leverage local knowledge as well as the project origination capacity of these banks. National development banks, for example, have a particular local development perspective that they can highlight, which may be overlooked if they are not involved in the early stages of project development. Additionally, they could play a bigger role in de-risking projects, providing local currency facilities or blending concessional finance with commercial funds.

African IFIs, such as the AfDB and AFC, have better access to global frameworks, such as the Multilateral Centre for Development Finance, which supports them in addressing infrastructure challenges through project preparation facilities, capacity-building initiatives and information sharing. These resources can be used to leverage collective heft with other development banks on the continent, which may not have such access.

African IFIs also need to address information asymmetry around risk assessments and the adoption of standards. The scarcity of data concerning Africa complicates not only the evaluation of risks associated with infrastructure development projects, but also understanding what approaches are most effective. African IFIs should, therefore, ensure that they create platforms that enable them to share information, coordinate project pipelines and harmonise approaches to project implementation and monitoring.

To address fragmentation and unlock the AfCFTA's potential, African IFIs must adopt a results-oriented, institutionalised coordination model, potentially a dedicated fund, with clear, shared objectives and measurable outcomes aligned with AfCFTA goals and the development of trade-enabling infrastructure. By institutionalising coordination, local development finance institutions and regional IFIs would be compelled to align their strategies, harmonise their reporting mechanisms and collectively track progress against agreed-upon key performance indicators. This focus on demonstrable results, facilitated by a transparent and accountable fund structure, would not only enhance the impact of IFI interventions, but also build greater confidence among stakeholders, including the private sector. The ability to demonstrate tangible outcomes clearly and a unified commitment to achieving the AfCFTA's objectives through this institutionalised, results-driven approach are paramount for attracting the sustained investment required for success. IFIs need not start from scratch in this regard as they can leverage existing platforms, such as the Association of African Development Finance Institutions, to serve as stepping stones towards establishing such a model.

> The ability to demonstrate tangible outcomes clearly and a unified commitment to achieving the AfCFTA's objectives through this institutionalised, results-driven approach are paramount for attracting the sustained investment required for success

Private sector mobilisation

Institutional investors, such as insurance companies, pension funds and sovereign wealth funds, manage over $100 trillion in assets globally and could be leveraged to fund infrastructure projects.[35] The private sector has been involved in infrastructure financing through various means, including PPPs and fully private investments. This is particularly true in the ICT sector, where standalone private investments in infrastructure, such as data centres, are more prevalent.

However, despite this involvement, private sector investment in Africa remains lower than in other regions.[36] PIDA, for instance, relies on states, international cooperation agencies and the private sector for funding. However, the private sector has contributed only 3% of the overall investment.[37] This highlights a significant issue stemming from various factors, including a lack of information and misconceptions about the viability of Africa as an investment destination. Addressing this is crucial, and African IFIs play a pivotal role in dispelling these misconceptions. The substantial private capital available underscores that the challenge lies not in the absence of funds, but in their effective mobilisation and utilisation.

35 Robert Kappel, Birte Pfeiffer, and Helmut Reisen, "Compact with Africa: fostering private long-term investment in Africa", TRALAC, May 17, 2017.

36 Cirolia, Pollio and Pieterse, "Infrastructure Financing".

37 AFC, *State of Africa's Infrastructure*, 11.

This highlights a significant issue stemming from various factors, including a lack of information and misconceptions about the viability of Africa as an investment destination

This issue was highlighted in the ICA Infrastructure Financing Trends in Africa 2019–2020 Report, which states that 'the private sector is potentially a significant source of financing for African infrastructure, but is held back by concerns of sector creditworthiness, perceptions of political risk, and bureaucracy and red tape.'[38]

BOX 1 FOUR POTENTIAL STRATEGIC APPROACHES TO MOBILISE PRIVATE SECTOR FINANCING MORE EFFECTIVELY

1 Increase the pipeline of bankable projects

A central challenge in private sector mobilisation is the bankability of infrastructure projects.[39] Bankability entails making projects appealing and securing enough to attract financing from banks and other investors. It involves an analysis of a project's riskiness by assessing its operational feasibility, economic viability, financial solvency, liquidity position and potential for value accretion.[40] Further, it has been highlighted that the majority of infrastructure projects never reach financial close, and over 80% of them do not progress past the feasibility stage.[41] The G20 Global Infrastructure Facility, for instance, seeks to develop financially viable projects by offering advisory services and project preparation support. In 2022, the facility only approved a total of $19 million to fund 25 projects.[42] This is indicative of how complex the task of making projects bankable is.

Another key issue in determining project bankability remains the lack of data. Investors often struggle to obtain essential information on environmental impact, project performance and financial sustainability.[43] This lack of data complicates investment decisions, introduces uncertainty, increases perceived risk and hinders

38 Infrastructure Consortium for Africa, "Key Achievements in the Financing of African Infrastructure in 2019–2020", https://www.icafrica.org/en/topics-programmes/key-achievements-in-the-financing-of-african-infrastructure-in-2019-2020/.

39 Mayowa Mubashir Abiru, "Towards Implementing the African Continental Free Trade Area (AfCFTA) Agreement: A Framework to Address Bankability Concerns for African Infrastructure Projects", *Journal of Advanced Public International Law* 2, no. 1 (2021).

40 Abiru, "Towards Implementing the AfCFTA".

41 Lakmeeharan, "Solving Africa's Infrastructure".

42 Samuel Pleeck and Mikaela Gavas, "Bottlenecks in Africa's Infrastructure Financing and How to Overcome Them", Centre for Global Development (blog), December 11, 2023, https://www.cgdev.org/blog/bottlenecks-africas-infrastructure-financing-and-how-overcome-them.

43 Prescient Investment Management, "Challenges and Opportunities in Financing Sustainable Infrastructure", *Daily Maverick*, October 22, 2024.

the ability to report effectively on project outcomes,[44] which makes sustainable investments less attractive.

Since 2020, strong investor confidence has enabled African IFIs to raise capital innovatively, positioning them as key drivers of continental development through international support for sustainable goals.[45] Therefore, the question is not whether African IFIs are capable, but how they can expand their initiatives and capitalise on their existing strengths. Acting as intermediaries between the public and private, African IFIs should continue to de-risk investments to build confidence in African projects. Using Export Credit Agencies has also been a useful tool for political risk insurance and can help promote foreign direct investment.[46] Blended finance models are widely regarded as effective mechanisms for attracting private investment.

Notwithstanding the points discussed above, increasing project bankability requires more early-stage development funding, new partnerships and access to qualified professionals. Governments should help mitigate political, currency and regulatory risks. Technical grant-based funding and attracting impact investors would advance projects to bankability.[47] Project preparation facilities bridge technical and financial gaps offering support like feasibility studies and procurement documentation.[48] In addition, an agency dedicated to identifying and preparing bankable projects has been proposed.[49] This could be structured as 'an infrastructure development think tank comprising project finance experts whose singular objective will be to identify and prepare bankable projects across the African continent that will promote the trade integration goals of the AfCFTA agreement.'[50] This proposal is one worth considering given its potential to provide some synergy in this area.

Initiatives like the African Investment Forum and the NEPAD Infrastructure Project Preparation Facility Special Fund under the AfDB have been established to assist with project preparation primarily by bridging the early-stage financing gap. These initiatives include PIDA.[51] Yet given their challenges in raising sufficient private sector finance, this raises the question of whether projects facilitated through this fund can reach the level of bankability or attractiveness required by private and commercial lenders. Accordingly, the proposed agency for bankable projects presents an opportunity for IFIs to build on these initiatives and expand their reach through the

44 Prescient Investment Management, "Challenges and Opportunities".

45 James Hardy, *African Development Finance Institutions* (White & Case, 2021), https://www.whitecase.com/insight-our-thinking/african-development-finance-institutions

46 Cirolia, Pollio and Pieterse, "Infrastructure Financing"; The Infrastructure Consortium for Africa Secretariat, "Infrastructure Financing Trends in Africa 2019-2020", Research Report (2022).

47 Thusi and Mlambo, "Effects of Africa's Infrastructure Crisis", 1062–1063.

48 Cirolia, Pollio and Pieterse, "Infrastructure Financing"; The Infrastructure Consortium for Africa Secretariat, "Infrastructure Financing Trends".

49 Pleeck and Gavas, "Bottlenecks"; Abiru, "Towards Implementing the AfCFTA".

50 Abiru, "Towards Implementing the AfCFTA".

51 Bart W. Édes, "International Financial Institutions Key to Meet the Infrastructure Financing Gap", Wilson Centre, 2022.

support of a central agency tasked with not just the preparation and facilitation of projects to bankability, but also the use of collective expertise at national, sub-regional and regional levels in the identification of such projects.

2 Promote impact financing

In contrast to the private sector's focus on financial returns and profitability, an IFI perspective on bankability is likely to emphasise social impact, financial stability and cost effectiveness. IFIs may prioritise specific objectives, such as fostering regional transportation networks.[52] Accordingly, effectively securing investment from various parties requires both adequate insight into each financier's priorities and viable solutions for reconciling the different weightings they may place on factors such as social and environmental considerations versus financial returns.

Impact investment is playing an increasingly significant role in African infrastructure financing. It is a broad approach that spans various asset classes and return profiles and is defined as making investments intended to generate positive social and environmental impacts alongside financial returns. Unlike traditional philanthropy, impact investing expects financial returns that may be below market rate, risk-adjusted or delayed.[53] Connected to this is perhaps the importance of reflecting on the goal of infrastructure financing on the continent and whether an investment model rooted in the goal for financial return is sustainable. The reality is that remaining disconnected as a continent does not truly benefit anyone.[54]

It is important to recognise that many socially or economically beneficial projects may not be bankable, at least not for private investors or commercial lenders, even with robust structuring. Furthermore, some projects may lack both viability and desirability. Does this mean that they should be abandoned altogether? On the contrary, such projects demand increased public funding. It is in this context that blended financing must be carefully designed to ensure that public resources are not diverted to ventures that could secure private capital independently but rather directed towards high-risk initiatives with limited financial viability. Achieving this will require a re-evaluation of strategies and models, not only by national governments but also by IFIs.

52 World Bank, "Developing Bankable Transport Infrastructure Projects: Case Studies, Experiences and Learning Materials for LLDCs and Transit Countries", https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/draft_develop_bankable_transport_infrastructure_project_24sep1_0.pdf.

53 Cirolia, Pollio and Pieterse, "Infrastructure Financing"; The Infrastructure Consortium for Africa Secretariat, "Infrastructure Financing Trends".

54 AUDA–NEPAD, "What is Really at Stake When We Are Talking About Infrastructure Investment in Africa?", (blog), March 15, 2024, https://www.nepad.org/blog/what-really-stake-when-we-are-talking-about-infrastructure-investment-africa.

3 **Expand the investment value chain**

African IFIs need to consider tapping into other segments of the value chain. In the energy sector, for instance, the AFC has highlighted the opportunity for African IFIs to intervene in the transmission and distribution sector to enhance bankability and attract private sector capital.[55]

4 **Invest in sub-national initiatives**

IFIs have identified investing in sub-national projects as another solution. However, while countries like South Africa have municipal bonds, many African cities lack the necessary legal and financial infrastructure to do the same.[56] African IFIs can, therefore, collaborate with governments to develop solutions that foster an enabling environment for sub-national investments.

Scaling up current efforts

AfCFTA Adjustment Fund

The AfCFTA Adjustment Fund is distinctive in that it is the first fund established with the specific limitations of the AfCFTA in mind. This makes it a fund that African IFIs should strongly support or consider investing in. One way this can be achieved is through financial contributions to the general and credit funds. Under the general fund, concessional funding can be provided by co-financing government projects and PPPs, thereby lowering the overall cost of capital for infrastructure projects, enhancing their viability and attractiveness. African IFIs can also mobilise commercial debt and direct investment through the credit fund by offering credit lines, syndicated loans and co-investments to support SMEs, emerging corporates and large corporates.

Conclusion

African IFIs need to collaborate now more than ever. The AfCFTA is a continent-wide initiative that requires a concerted effort to succeed. As mentioned, historical investments from global IFIs such as the World Bank and IMF have often been criticised for having adverse impacts on developing economies. Therefore, in coordinating standards and efforts to mobilise infrastructure finance, it is essential to avoid replicating the adverse outcomes of past initiatives. Partnerships with private investors must consider the

55 AFC, State of Africa's Infrastructure, 34.
56 Cirolia, Pollio and Pieterse, "Infrastructure Financing"; The Infrastructure Consortium for Africa Secretariat, "Infrastructure Financing Trends".

long-term effects of projects to ensure sustainable development. By embedding high standards in investment quality, procurement and sustainability, African IFIs can set a benchmark that co-financiers can adopt more easily. It is crucial that all stakeholders work together to create synergies across infrastructure projects to ensure they generate lasting impact and support the successful implementation of the AfCFTA.

Author

Kesaobaka Nancy Mopipi

is a G20 Researcher in the Economic Resilience and Inclusion Programme at the South African Institute of International Affairs (SAIIA). She conducts targeted research and policy engagement on topical G20 issues, particularly on international financial architecture reform. She is interested in the intersection of international financial markets, taxation and sustainable development. She is also an admitted attorney in the High Court of Botswana.

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Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339–2021 · Fax +27 (0)11 339–2154
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