Financing Sustainable Transport Infrastructure & Services as Key Enabler of South-South Trade- The Role of Development Finance Institutions

Presented by

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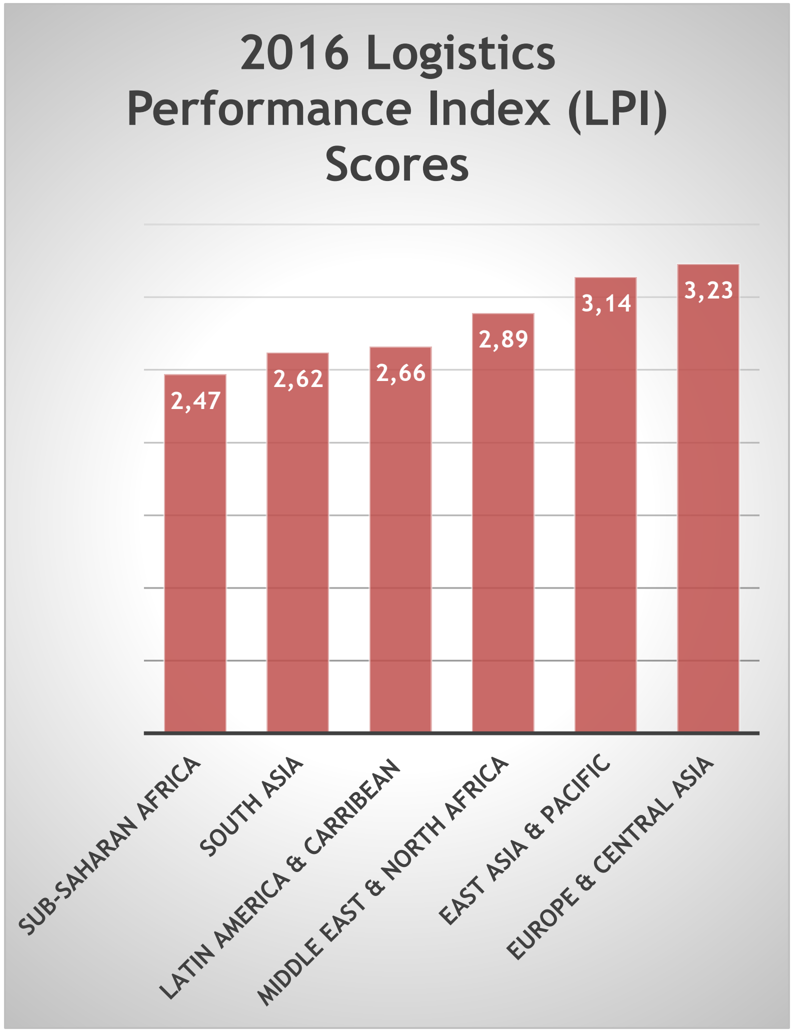
Introduction - South-South Transport Infrastructure Investments

- Transport remains a critical development bottleneck in the South-South regions that impacts productivity, competitiveness and efficiency / connectivity in trade. The low LPI Score by the world Bank reflect on the South-South regions with the exception of South East Asia.

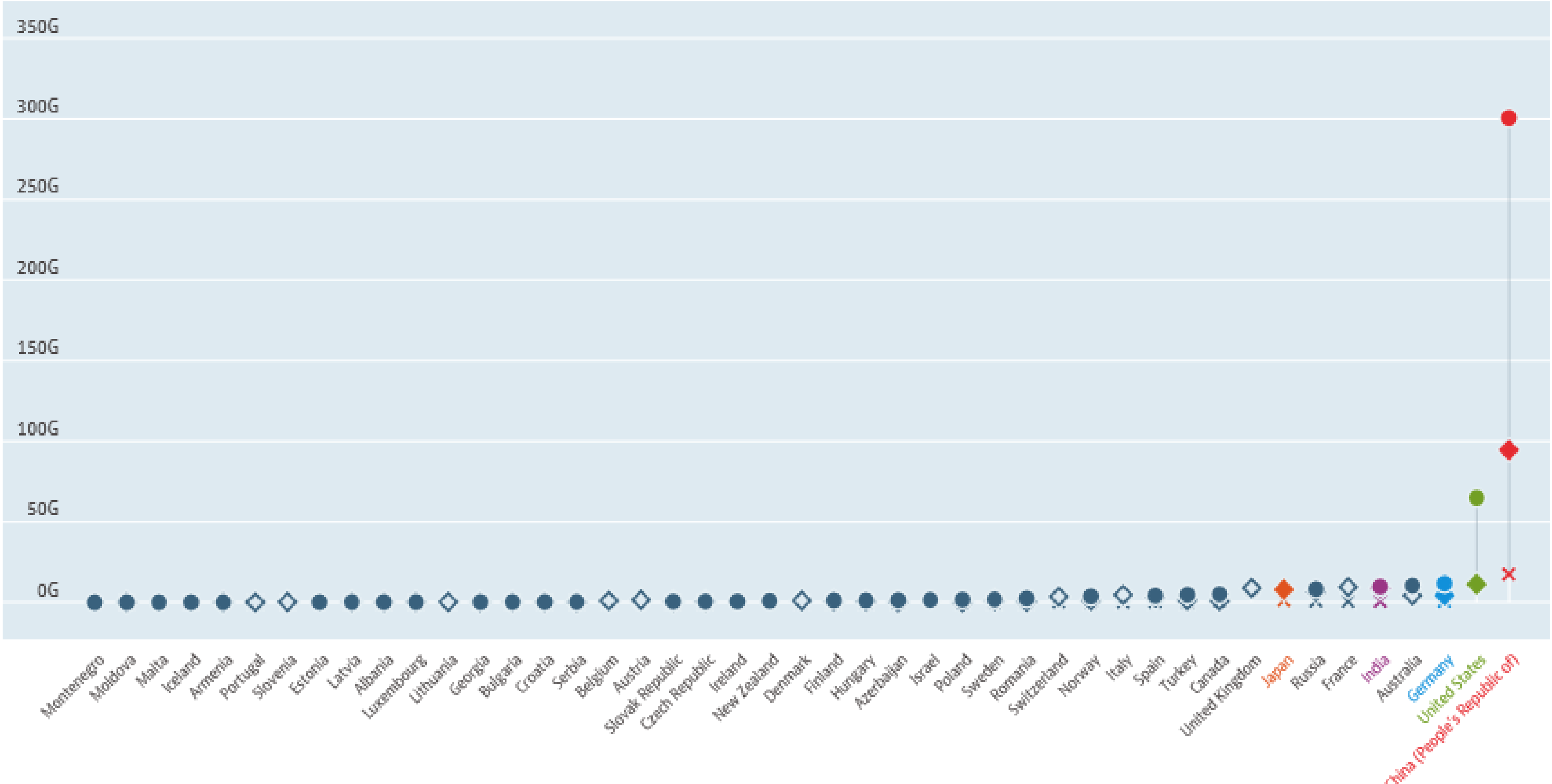
- The South-South regions have huge transport infrastructure investment gaps.
  - Estimates of Africa's annual Infrastructure gap is at US$100 billion of which Transport constitutes 41%
  - ADB has projected that countries of Asia and the Pacific will need to invest US$2.5 trillion in the next decade for transport alone.



Source: lpi.worldbank.org

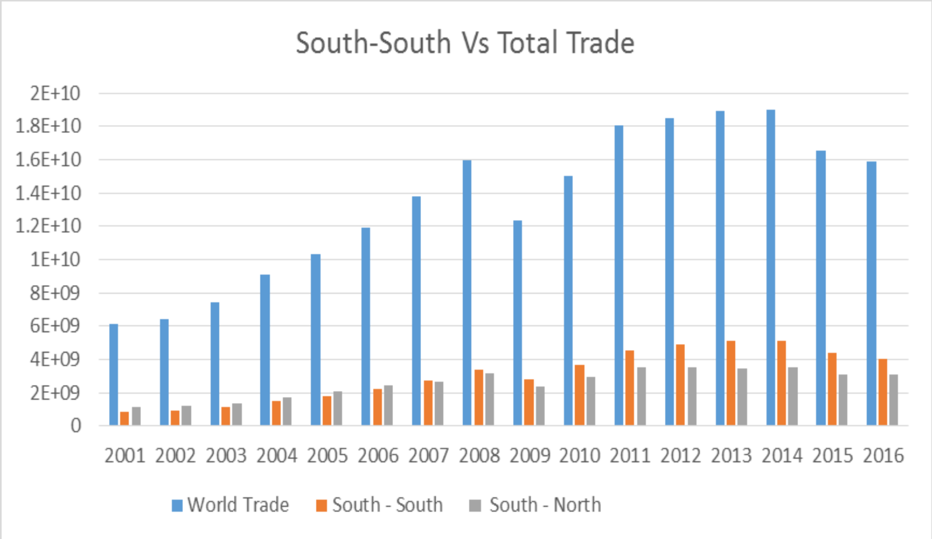
Introduction - South-South Transport Infrastructure Investments

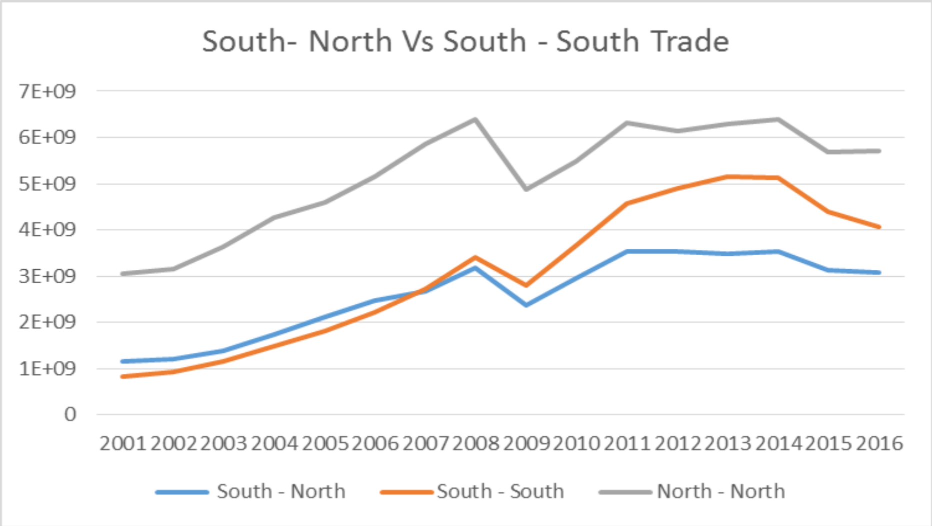
- By 2050, global investment needs for land transport infrastructure is estimated to reach US$3 trillion per year on average, under current policies according to OECD.
- According to OECD data and schematics below only China and India have significant transport infrastructure investment and maintenance spending



Introduction - Trend of South-South Trade

- South-South Trade has recorded strong growth over the past decade, rising from US$833.69billion in 2001 to a peak of US$5.12trillion in 2013, before dropping to US$4.08trillion in 2016.
- In percentage terms, contribution of South-South to total trade increased from 13.63% in 2001 to 26% in 2016
- Over the same period, North-North trade dropped from about 50% to 36%, while South-North trade stagnated at 18-20% of total trade.

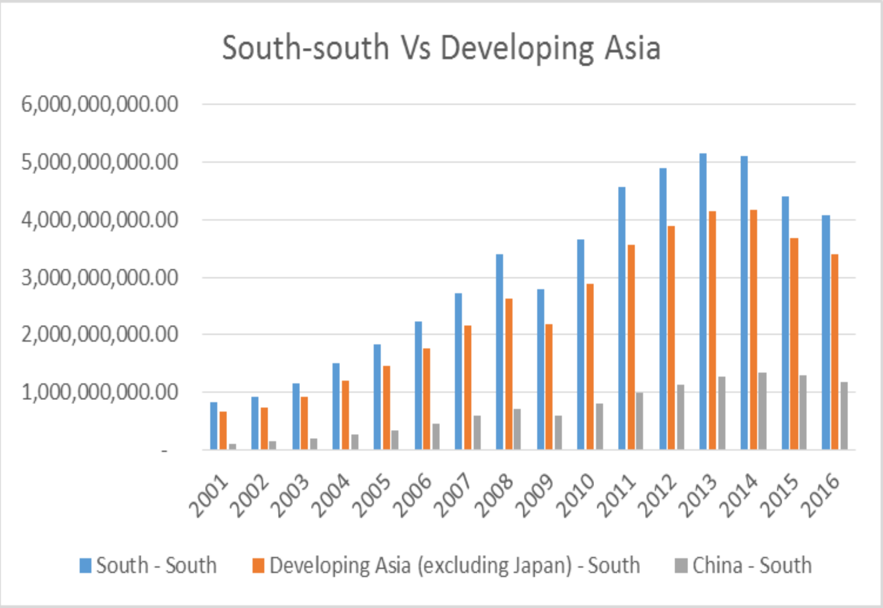


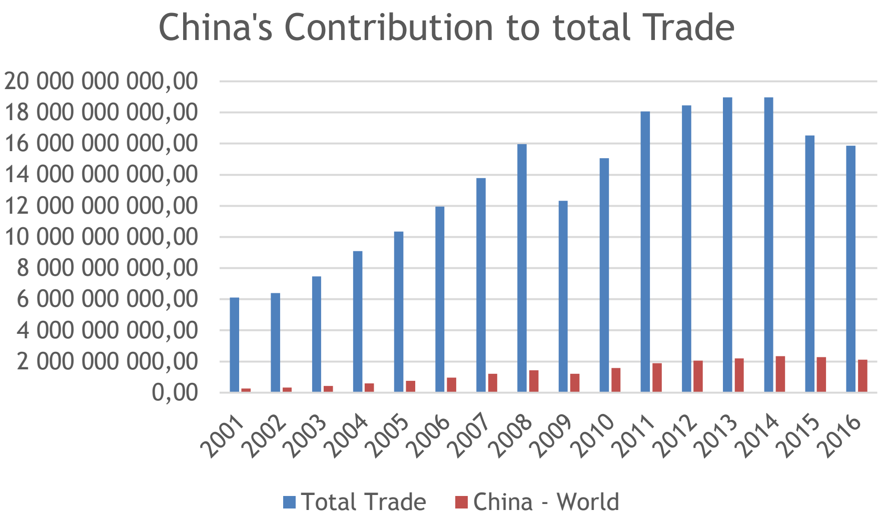


Source: compiled using data from International Trade Center

Introduction - Trend of South-South Trade

- The observed trend in South-South trade is driven mainly by developing Asia, substantially by China and to a lesser extend India and some South East Asian countries
- Contribution of Developing Asia to South-South Trade increased from 78.3% in 2001 to 83.6% in 2016, while China's contribution increased from about 14% to 29%
- Dominance of Developing Asia and indeed China is driven by the region's contribution to Global Value Chains and increased trade in value added and intermediate goods





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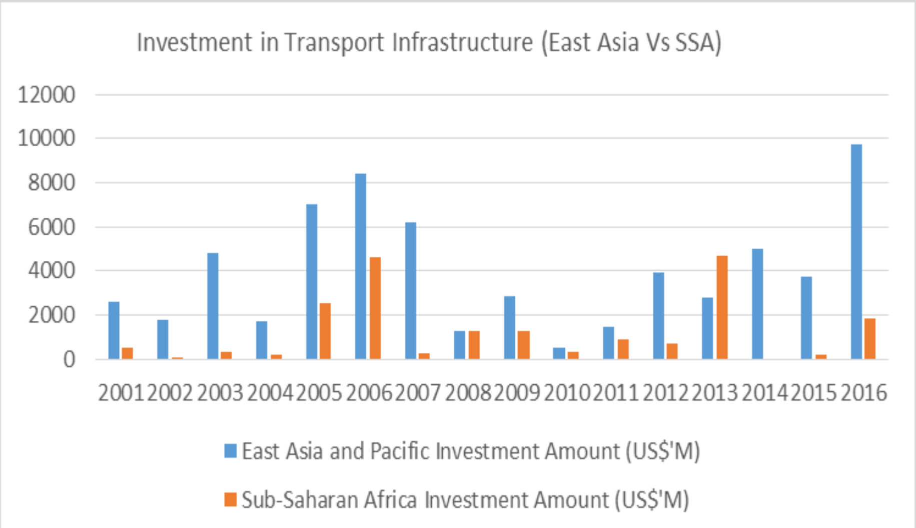
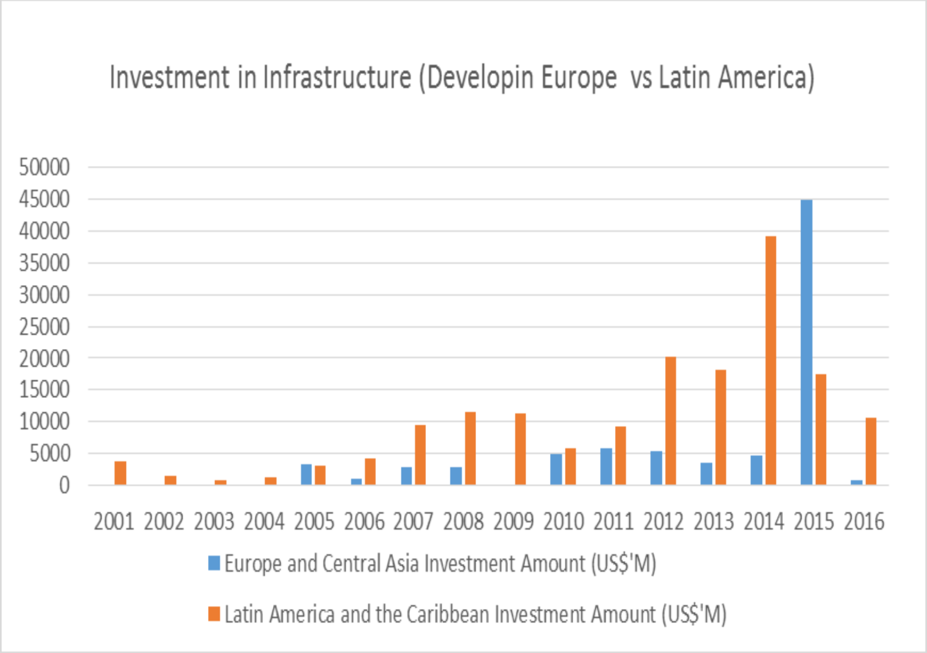
Overview of South-South Transport Infrastructure Investment

- Sustainable Development Goal 9 requires countries to "Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all".

- In the South-South, while the developing Asia has invested in rapid infrastructure development, other developing counties, particularly Africa have huge infrastructure gap, which has adversely impacted trade and investment growth.

- Developing sustainable transport infrastructure is however critical to the sustainable growth of south-south trade.

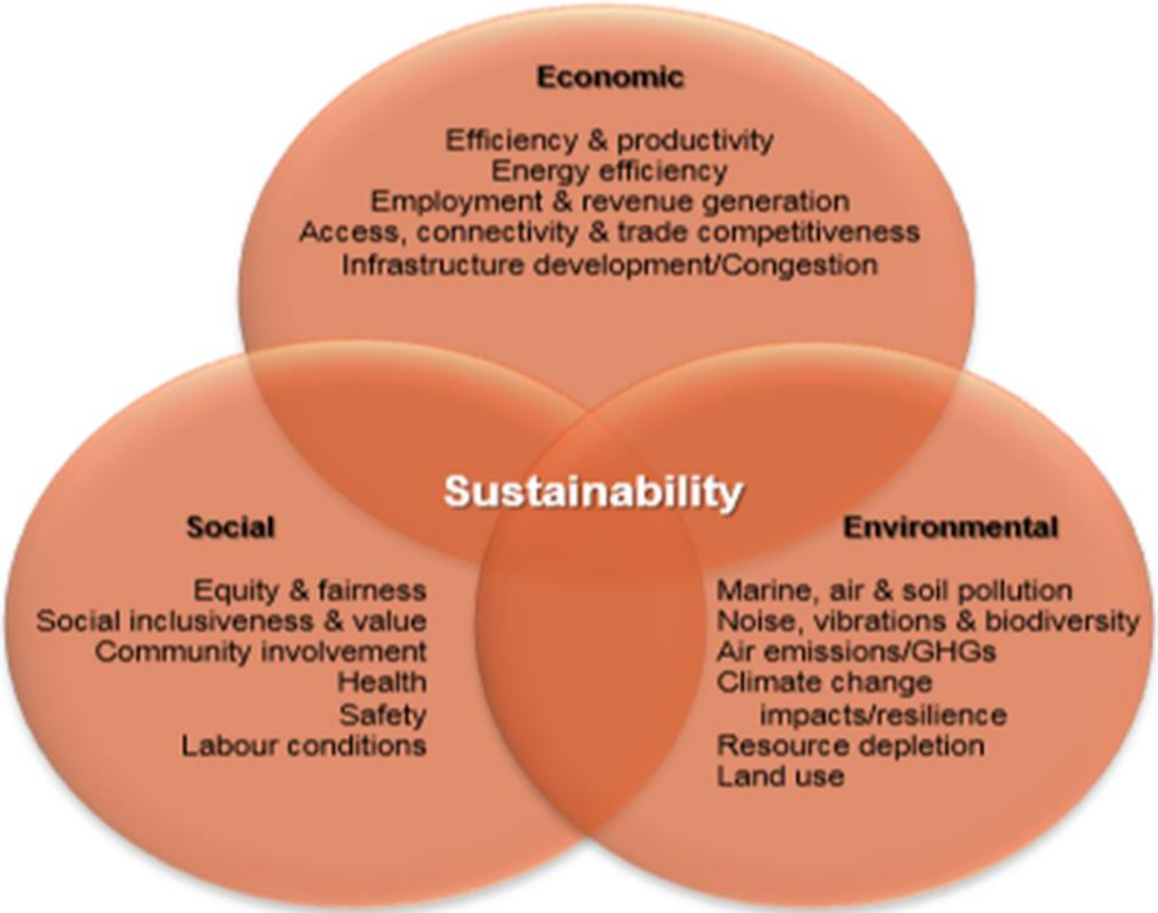




Source: compiled using World Bank Data

Sustainable Transport Infrastructure

The three pillars of sustainable transport infrastructure entails the following - Economic, Social and Environmental considerations as schematically represented below



Source: UNCTAD

Financing Sustainable Transport Infrastructure –Role of DFI

- There is need to scale up and spur investments in transport infrastructure to not only meet developmental goals – SDG 9, but in fostering growth economic activity and bridging infrastructural investment gaps.
- Given the extent of investment needs, annual global investment needs of US$3.3 trillion to be invested yearly up to 2030 (June 2016 Mckinsey Study) and growing global fiscal constraints and public finances, there is need to use different project financing options to attract and mobilize private investments
- There is also need to develop / look into innovative financing arrangements that are economically feasible and sustainable. Financing options through foreign exchange reserves invested abroad, Pension and Sovereign Wealth funds should be critically deliberated upon by policy makers
- Development of strong partnerships with strong legal / regulatory framework to support fixed transport infrastructure installations – ports, rail, roads, etc

Role of DFIs

- The DFIs have over the years been providing funding intervention in transport infrastructures and logistics to support trade based on their various establishment mandates and programmes, for example;

  - About 30% & 15% of African Development Bank funding interventions were for transport in 2015 & 2016, respectively

  - 32% of ADB lending over the last four decades in transport investments valued at over US$36 billion

  - CAF – 23.6% of CAF approved funding in 2014 went to Infrastructure including Energy, Roads, Transport & Communication)

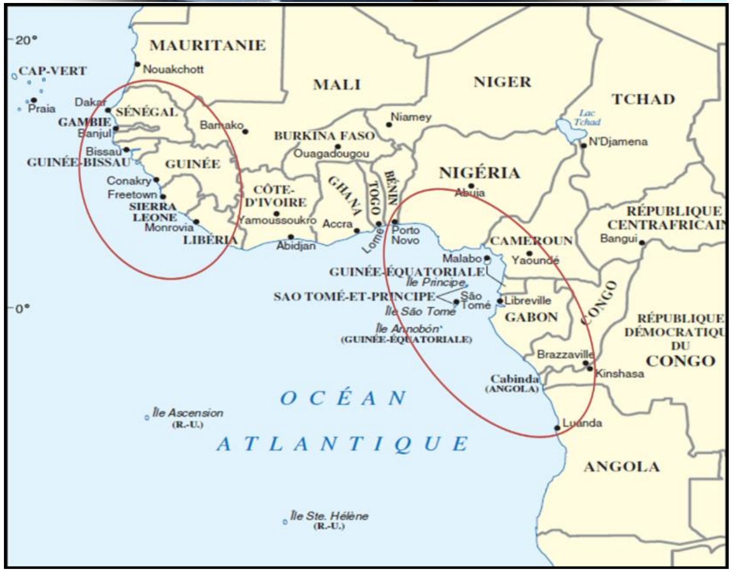
Role of DFIs

- DFIs could support sustainable transport infrastructure in the following ways:
  - Financial Advisory / Project Structuring Services
    - On PPP arrangements / Options
    - ECA Financing Arrangements
    - Infrastructure Bond Issuance
    - Syndication / Joint Financing Arrangements
    - Structured Project Finance
  - Concessional Funding Arrangement
  - Provision of Insurance/ Guarantees – Investment / Payment
    - Provision of risk mitigation instruments to investors / contractors
    - Investment Guarantee / Insurance to investors
    - Minimum Guarantee Return

- Africa, especially west and central Africa have the lowest Logistics Performance Index score, owing to inadequate transport / logistics infrastructure, which has muted intra-regional trade at 10% - 12% over the past decade and leading to the region's having;

  - Highest comparative international transport costs – about US$2.43 / Km (more than twice standard rates) and excessive transit time for intra-regional trade due to transhipment (2 – 8 weeks).
  - Transport cost in land lock countries represent about 45% of value of imports and 35% of exports, as against global average of 5.4% and 8.8%, respectively.

- NEXIM is partnering with other institutions to promote a transnational shipping company on PPP arrangements



Concluding Remarks

Sustainable infrastructure investment and bridging South-South infrastructure gap has now become imperative as a result of the need for the;

- Realisation of UN's Sustainable Development Goal 9, which requires countries to develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being.

- Enhancement of GDP per capita growth, as World Bank' s African Pulse Report correlates closing of infrastructure quantity and quality gap relative to the best performers in the world to increase growth of GDP per capita by 2.6% per year.

- Boosting South – South Trade and increasing the integration of the regions to the global value chain

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