Private Sector Perspective on Infrastructure Development in EAC,

By Ali A. Mufuruki, Chairman and CEO, Infotech Investment Group

Protocols

- The EAC Region is among the fastest growing regions in the World, with GDP growth rates averaging **5-6%.**

- And as we know, a significant share of this growth still comes from the sectors of Agriculture and Services, with a large percentage of agriculture being subsistence-based and exports dominated by primary products.

- Economists are telling us now that for growth rates to have significant impact on poverty reduction, we need to sustain a double-digit annual GDP growth rate for at least the next 10 years. As an example, Tanzania would require to grow its GDP at a rate of 14% effective immediately if it is to meet its goal of becoming a middle-income developing nation by the year 2025, which is only seven years away. It is a herculean task but not impossible if we make the right choices as I will explain.

- For this to happen, we need a major change in the structure of our economies and by that I mean the composition of GDP.

- To do so we need to scale up our investments in infrastructure. We also need to channel more capital into manufacturing value-addition, invest in human capacity building as well as smart policy design and execution.

- Needless to say, infrastructure provides the foundation for economic growth. The state of roads, the availability of marine transport, the quality of telecommunications, the availability of air transport, the quality and availability of water and sanitation, the availability of the availability and cost of electricity; all of that known collectively as infrastructure, is what makes the distinction between developed and struggling economies.

- However, the scale of infrastructure expansion needed to spur the desired rate of growth in the EAC region is massive and requires enormous amounts of capital that governments alone cannot provide.

- Traditionally, infrastructure has been an exclusive preserve of the public sector because it is considered a public good or social service, which only the state can provide for free or at subsidised rates.

- However, this policy stance has been proven wrong over the past few decades and East Africa has a powerful example of its own in the form of a vastly transformed and thriving telecommunications marketplace, thanks to deregulation of the sector. It is important to note that private sector investment made the difference here.

- We know now that roads, railways, airlines, power generation plants and transmission lines, pipelines etc.; can be developed and operated by the private sector on negotiated terms with Governments.

- Where this has been allowed to happen, it has been acknowledged that the private sector is a more efficient operator and provider of these vital 'public' serves than the state, while similar services operated by the public sector have in most cases been costly, inefficient and inadequate.

- Urban transport infrastructure in developing country cities, including those in EAC, is so deficient that accidents, traffic jams-related economic losses of several hundred million US dollars a year are not uncommon, not to mention related hazards such as pollution of the environment.

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- Economic growth, economic competitiveness of the EAC region, productivity and job creation therefore depend to a large extent on our ability and I must add, our willingness, to invest in and maintain high quality infrastructural assets.

- In 2016 the McKinsey Global Institute published a study that identified enormous infrastructure needs: For the period 2016-2030.

- Global infrastructure spend of **US$49.1 trillion** is needed, with **60%** of this required in emerging markets.

- This translates to $50 per person per annum that needs to be invested in infrastructure assets. For EAC countries collectively, we would need to invest $ 7.5 billion in infrastructure alone this year and every year for the next twelve years.

- To break this down further, this number translates to $ 2.75 billion per annum for Tanzania, $ 2.5 billion for Kenya, $ 2 billion for Uganda, $ 600m each for Rwanda and South Sudan and $ 500m for Burundi. These are big numbers that governments alone cannot raise, but as we have born witness in the case of the telecom sector, the private sector can raise those sums and more.

- This situation calls for a new and more innovative approach to public private partnerships (PPP).

- Well-crafted public private partnership projects (PPPs) have proved successful compared to traditional public sector delivery approaches. The old adage "time is money" is very apt in the infrastructure sector as the opportunity cost of delays to improving and expanding infrastructure is real and quantifiable.

- The time to forge these PPPs is now, the need to increase the level of private sector investment in infrastructure cannot be over-emphasized.

- We all recall when, about 25 years ago, the Telecommunications Sector was a Government monopoly and how inefficient the sector was. Among other things, the justification for the monopoly was the issue of national security.

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- With the advent of new technologies in the sector, i.e. mobile phones, and liberalisation of the sector, telecommunication services are efficient, competitive and among the fastest growing sector, even enabling growth in other sectors such as financial services, transportation, etc.

- In fact, and contrary to earlier belief, monitoring national security is now more efficient than it has ever been and the state security infrastructure is built on private sector financed assets.

- The telecoms sector contributes 10% of the GDP of Nigeria, Africa's largest economy, 10% to Kenya's GDP but only around 2% of the GDPs of other EAC member countries, meaning that the best of telecoms is yet to come for these countries.

- The African telecom sector success story can be applied to bring about transformative change to other infrastructures such as energy, transportation, etc. What is needed now is a policy stance that is more welcoming of private sector ideas and money.

- Needless to say we will also need to invest heavily in regulatory capabilities as well as effective enforcement of fair competition rules and consumer protection.

- Let me close by saying that the EAC stands before an unprecedented opportunity that is waiting to be seized.

- This opportunity is called infrastructure investment and the path to this opportunity is called PPP.

Your Excellences, Ladies and Gentlemen,

Thank you for listening to me.