

Infrastructure Financing Mechanisms to Close the Infrastructure Gap in Sub

Saharan Africa Countries

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ABSTRACT

The main aim of the essay is to examine the infrastructure financing mechanisms to close the infrastructure gap in sub-Saharan African countries. The study has followed a qualitative and econometrics approach for examining financing mechanisms in Sub-Saharan African region. The study has undertaken a sample size of 40 SSA countries and three periods of pre-colonial, colonial and post-colonial era are discussed. Moreover, the study has discussed the current financing mechanisms of traditional model, western model and Chinese infrastructure for resources model for infrastructure development in SSA region. The strengths and weakness of these frameworks are discussed along with the reason these frameworks led to infrastructure gaps in Sub Saharan Africa. Through the study, the financing framework of Public-Private Partnership has been presented and suggested for usage in Africa in order to close the infrastructure financing gap of \$93 billion.

TABLE OF CONTENTS

SECTION 1: INTRODUCTION4

 1.1. Introduction.....4

 1.2. Research Background5

 1.3. Aim and Objectives.....6

References.....8

SECTION 1: INTRODUCTION

1.1. Introduction

The following section of the essay is aimed at discussing and examining the financing mechanism in order to close the gaps in the infrastructure development with the specific focus on the SSA countries. The World Bank has estimated the investment gap in the countries as 93 billion annually within the development of the infrastructure, and the yet the SSA countries face challenges in this area. The statistics have revealed that around two-thirds of the Africans have no access to the roads, power, and ICT within the era of developing the world. However, the overall nations of the SSA lose 2.1% of the GDP annually due to the inadequate infrastructure which presents a circumstance that is daunting and correctable through collaborative action and appropriate investment.

In the previous essay, the researcher has presented the analysis on the quality and quality measures of the infrastructure with the exploration of the relationship between economic growth and infrastructure growth within the SSA countries and further examines the quality measures of the infrastructure development. However, to close down the gaps in the infrastructure development in SSA countries which have been identified in the previous essays, the major aim of the essay is observed to be examining the infrastructure financing mechanisms which will assist in closing the infrastructure gap in the Sub Saharan African countries. For the essay, the relevant data has been extracted from at least 40 Sub Saharan African Countries along with the inclusion of qualitative measures as it is the first study which will present a qualitative assessment of the financing mechanisms in SSA.

1.2. Research Background

According to Calderón and Servén (2010), the Sub-Saharan African countries economic outlook remains blurred. However, the growth and development in the countries sharpened in the year 2016 which averages at 1.4 percent which is lowest in the past two decades. In addition, a modest rebound in the growth which was estimated at 2.6 percent is expected for the year 2017. Conversely, the rebound was focused to be driven at the larger extent in Nigeria, Angola, and South Africa. Moreover, the unfortunately deteriorated outlook of the SSA countries partly results from the limited and delayed policy adjustments along with ensuring an increase in the public debt, pressures on the financial systems, declining international reserves placing stress on the private sector activities of the SSA countries.

It has been stated by Foster et al., (2009) that the government of Africa has recognised the infrastructure problems, but they have neither the technical abilities nor the financial resources for closing the infrastructures gaps identified in the SSA countries. Moreover, the private expertise and capital could be mobilised for the purpose of enhancing the financing mechanisms which are to be employed for the improvement in the infrastructure development of the SSA countries. In this essence, the African countries fail to attract their international private investors for first-tier to focus on the infrastructure projects. However, the second and third-tier investors are intended towards more active in the continent, yet they also lacked at some of the capabilities themselves.

Furthermore, the growth effects of the SSA countries quality and quantity gaps are large potentially. For instance, the growth of the countries in terms of GDP per capita for the region would be focused towards increasing an estimated amount of 1.7 percentage points per year if they are found to be a closing gap with the developing world medians. The closure of the infrastructure quantity and quality gaps is relative to the best performers in the globe

which could enhance the growth of the GDP per capita of the countries for around 2.6% per year. In addition to the above statement, the largest potential for the growth benefits would occur from the closure of gaps in different sectors.

In the light of Mueller et al., (2012), it is necessary that the infrastructure services which are performing below have created certain challenges that are required to be addressed at the country level of the SSA countries for the purpose of enhancing the competitiveness and ability to trade with the agricultural, health needs alongside the domestic needs in urban and rural space. Furthermore, the costs which are incurred is competitive enough for making the business, logistics, regulations and legislation more attractive for the foreign investors and the reduction of barriers will lead to the efficiency of the infrastructure areas. Moreover, the energy delivery services have been the biggest challenge which limits the opportunities for the industries and businesses for functioning effectively.

1.3. Aim and Objectives

The main aim of the essay is to examine the infrastructure financing mechanisms to close the infrastructure gap in sub-Saharan African countries which is followed by the objectives as,

- Identify and examine factors underlying the SSA infrastructure Gap of \$93 billion annually
- Examine the existing SSA infrastructure financing frameworks
- To present critiques on the strength and weaknesses of the following factors
 - Traditional model used by SSA countries for financing through taxation or their own source of finance

-Western Model used by SSA countries for financing it by the institutions such as IMF, World Bank along with the offering of conditionality like Economic Structural Adjustment Programmes

-Chinese Infrastructure for Resource Model used by the SSA countries for China finance SSA without any conditionality with the help of econometric regressions showing the depreciation of the roads China build for Africa for transporting purpose

- To formulate the best SSA Infrastructure Financing Model which is sustainable to use it in the future to African countries for closing the infrastructure gap in the countries

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