Emerging market economies: Why large scale infrastructure financing is important for emerging market growth

By Goitse Konopi

Assistant Researcher , National Planning Commission Secretariat



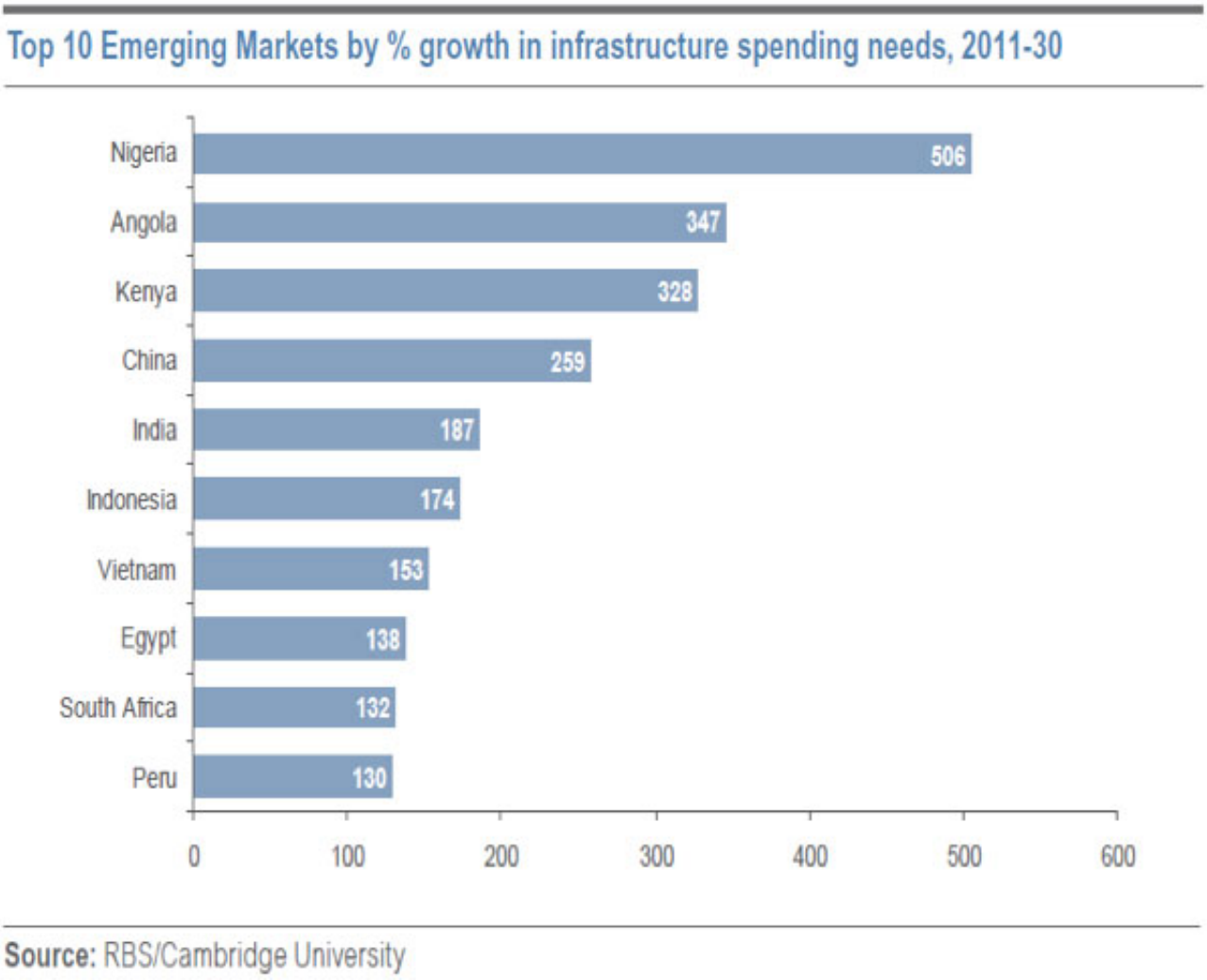
The growing investment trend within emerging markets is shifting towards the financing of critical infrastructure that will fund development and contribute to the overall growth of the emerging markets and more specifically the African continent.(1)

Across the Brazil, Russia, India, China and South Africa (BRICS) grouping there has been a clear contrast in the provision of infrastructure financing. This provision has made a huge difference in the growth story of South Africa's partners.

China has, over its series of successive five year development plans, invested in its infrastructure. The installation of infrastructure alone is not the only thing that drives a country or region's economic growth. Sound and efficient management are critical to the sustainability of these various projects.(2)

In China's state-directed model, clear policies for installing infrastructure to meet the needs of a rapidly expanding economy have been put in place.

The South African government has allocated a great deal of resources to large scale infrastructure development. However, it is worth noting that the current forecast has South Africa being overtaken by Nigeria in 2030.(1)



Global investment banks as well as sovereign wealth funds have taken the opportunity to finance large scale infrastructure, with the expectation of high yields. The demand for infrastructure projects in many emerging market countries could expand more quickly than in the BRICS grouping. China is expected to remain the electricity heavyweight with a forecast rate of 8.2%, compounded annually up to 2030.(1)

At present, there are a number of opportunities that are presented for investors seeking high yields. (1)Emerging markets lay the foundation for future growth as continued investment will result in future expansion, while the need creates a number of opportunities for partnerships between the private and public sectors.

It is evident that countries require large investments in their infrastructure in order to propel economic activity. Such investment should be structured in such a way that it benefits the population. The prioritisation of infrastructure programmes by many emerging market countries is a step in the right direction.(1)

> *South Africa has a relatively good core network of national economic infrastructure. The challenge is to maintain and expand it to address the demands of the growing economy. In the transport and energy sectors – dominated by state owned enterprises – the economy has already been constrained by inadequate investment and ineffective operation and maintenance of existing infrastructure. In the telecommunications field, policy and regulatory uncertainty and lack of capability remain barriers to infrastructure investment and to achieving affordable, quality services, especially for the poor. In the water sector, delaying critical investments may result in water shortages during a drought period-* ***National Development Plan, Chapter 4. 2012.***(3)

Furthermore, it is worth noting that a significant portion of the infrastructure built in developing countries,

particularly Africa, is decades old. The lack of maintenance and upgrades resulted in the current backlog.

Opportunities in developing nations, where governments fund and operate infrastructure investments, are likely be limited in the long run.(4) According to a report released by Bain & Co; 1.5 billion people, most of whom are in developing nations, do not have access to electricity. Of this figure, 85% live in rural areas. (5) For the first time in history, more than half the world's population now lives in cities and towns, with an estimated one billion people living in impoverished conditions in urban slums.(2)

Emerging market economies have an opportunity to develop new infrastructure in a way that is more sustainable and a more efficient use of the resources. The provision of adequate infrastructure for transportation, communication, housing, sanitation, and energy is essential for continued growth.(6)

Goitse Konopi is an Assistant Researcher in the National Planning Commission Secretariat. He writes in his personal capacity

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(1) Ash, T. 2011. The infrastructure challenge for emerging markets October 2011. Building Tomorrow
(2) United Nations Department of Economic and Social Affairs, Division for Sustainable Development, The Future We Want - Rio+20 : A/RES/66/288 - Energy
(3) National Development Plan, Chapter 4. 2012.
(4) The Great Eight | Bain & Company, Inc. Trillion-Dollar Growth Trends to 2020
(5) United Nations population Fund, Linking Population, Poverty and Development Urbanization: A Majority in Cities
(6) Wells Capital, Emerging Markets – A New Paradigm for ESG Investing. May 2011