Financing Infrastructure in the Developing World

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Financial innovations are providing like-minded investors with opportunities to participate in infrastructure projects throughout the developing world. Policy and system change will help accelerate progress.

A robust and adequate infrastructure is key to economic progress in developing countries, particularly in Africa. In nations such as Ethiopia, a surge of infrastructure investments is transforming the daily lives of citizens by providing new highways, rail lines and better communications. Yet in other countries there remains an "infrastructure deficit" of electricity, roads, ports and similar basic facilities. Limited industrialization, pressure on currencies and balance of payments challenges are just some of the barriers that prevent governments from addressing infrastructure needs.

To address this deficit in a meaningful way, it is necessary to link pools of capital to the areas of greatest need. However, there are limited pathways to facilitate this, and where the pathways do exist, they are fraught with leakages, graft, red tape, lack of credible property rights and significant execution risks.

Hence, there is an urgent need to elevate the conversation about infrastructure beyond the headlines. The broader range of stakeholders worldwide must be engaged. The role of pragmatic financial innovation is to serve as a catalyst to reallocate capital from opportunities with negative to zero returns to those with potential for both economic and social impact. For financial innovation to be effective, it must help investors assess countries or local governments for their probity, trustworthiness and ability to honor property rights and deliver attractive rates of return, while also providing tangible, measurable socioeconomic benefits to all stakeholders.

Advances in financial innovation provide an opportunity for like-minded investors to fund worthy projects in developing countries with infrastructure deficits and to benefit from attractive investment returns. Over the long term, innovation backed by proper governance will deliver attractive, risk-adjusted returns that are greater than those that will be available in developed markets. Investors' concerns about environmental, social and governance (ESG) issues in these countries will be elevated beyond idealism and reflect the reality that, in spite of geography, projects exhibiting strong governance are more likely to outperform in terms of profit and improvement in the lives of ordinary citizens.

However, financial innovation alone is not the answer. Policy and system change are necessary to accelerate progress in infrastructure investing. The developing countries (e.g., African countries) will not succeed in programming their way out of the current situation without political will. A credible political will, backed by qualified human capital, will help infrastructure projects meet every measurement of success.

The task requires a balance of profitability, attention to ESG factors and capable management.

Resource scarcity and climate change also must be addressed in any infrastructure development plan. As we follow these and other steps, investors' interest in the developing world will be elevated beyond idealism to reflect the reality that their investments can yield both social and economic returns.

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Thoughts and Predictions

Tolls as a payment structure will decrease significantly as political will increases.

Change will come more quickly in some regions than others. Regional cooperation will provide the critical mass needed to attract patient, long-term capital.

Locals will see beyond politics and connect the benefits to data, put a face to the numbers and change lives. The use of social media can disrupt the status quo, increase information flow and influence change in the way policymakers think about development. Through digital technologies, people will be more connected, better informed, empowered and emboldened to do right by themselves.

Measuring and communicating success will continue to help. Models will be structured to communicate environmental impact and the broader value added for local governments.

Collaboration among stakeholders is integral to success. Nevertheless, there must be a movement from collaboration to integration in order to maximize efforts in a way that benefits the stakeholders.

The strength of institutions will be augmented, better enabling the transmission of capital. Participation by local investors will ensure alignment of interests and indirectly, the protection of foreign investors.

Financial innovation has a key role to play in funneling capital to the areas that need it most. Direct loans to entities backed by government guarantees help. There will be more accountability as lenders, both domestic and foreign, track dollars lent to projects.