

Financing Africa's Infrastructure Future

Trends, financing structures and strategic pathways for infrastructure investment across Africa.

INSIGHTS REPORT

Infrastructure | Capital | Strategy

23 September 2026

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Executive Summary

Africa's infrastructure requirements are substantial. Energy systems must expand. Transport networks need to connect markets. Cities require water, sanitation, housing and mobility infrastructure. Healthcare systems need modern facilities. Digital networks must support increasingly connected economies.

The investment opportunity is equally substantial. Yet infrastructure projects frequently struggle to progress from strategic priority to financial close.

The central challenge is not simply the availability of capital. It is the ability to create bankable projects, appropriate risk allocation and financing structures capable of bringing different sources of capital together.

The African Development Bank has estimated an annual financing gap of approximately US\$402 billion by 2030 across Africa's broader structural transformation requirements.

The objective is not simply to find capital. It is to structure projects that capital can invest in.

1. Africa's Infrastructure Opportunity

Infrastructure is fundamental to economic productivity. Reliable electricity allows businesses to operate. Transport networks connect producers with markets. Water systems support households and industry. Digital infrastructure enables financial services and new business models. Healthcare infrastructure supports human capital.

The challenge is that infrastructure requires large amounts of capital upfront while generating returns over long periods. This creates a fundamental financing mismatch.

The solution is rarely a single source of finance. It is usually a capital structure.

2. Understanding the Infrastructure Capital Stack

Project preparation: feasibility studies, technical assessments, environmental and social studies, transaction advisory and financial modelling.

Development and equity capital: sponsor equity, infrastructure funds, private equity and strategic investors.

Senior debt: commercial bank and institutional lending once cash flows and risk allocation support debt service.

Guarantees: credit enhancement addressing specific risks.

Insurance and political risk mitigation: products addressing defined political and sovereign risks.

Export Credit Agencies: direct lending, guarantees or insurance linked to eligible exports and equipment.

Blended finance: combinations of public, concessional and commercial instruments designed to mobilise private capital.

3. The Role of Development Finance Institutions

Development Finance Institutions occupy a critical position between governments and private capital. They can provide long-term debt, equity, guarantees, project preparation support, technical assistance and transaction advisory.

Their role is particularly important where commercial investors perceive risks that cannot yet be adequately priced.

The greater opportunity is to use DFI capital to mobilise additional investment rather than replace commercial capital where commercial participation is feasible.

4. Export Credit Agencies: An Important Financing Partner

Export Credit Agencies are an important part of the infrastructure financing ecosystem, particularly where projects require significant imported equipment, engineering services or technology.

ECAs support exports from their home countries through instruments that can include direct lending, guarantees, insurance and other forms of official support.

For African infrastructure projects, ECA support can be particularly relevant to power generation and transmission, rail rolling stock, transport systems, industrial equipment, medical equipment and telecommunications infrastructure.

ECA financing can sit alongside DFI debt, commercial bank debt, sponsor equity and other forms of credit enhancement. Eligibility, procurement arrangements, country risk and exporter requirements need to be assessed early.

ECA involvement should therefore be considered during project development rather than after the financing strategy has already been determined.

5. Blended Finance

Blended finance is most effective when public or concessional capital addresses a specific barrier preventing commercial capital from participating.

The objective is not to subsidise projects indefinitely. It is to change the risk-return equation sufficiently for additional private capital to participate.

Potential instruments include guarantees, concessional loans, subordinated debt, first-loss capital, political risk insurance, viability gap funding, project preparation grants and technical assistance.

6. Domestic Capital Markets

International capital will remain important, but Africa's long-term infrastructure financing architecture also needs deeper domestic capital markets.

African pension funds, insurance companies and commercial banks hold substantial pools of domestic savings. The challenge is developing structures through which these institutions can invest in long-duration infrastructure assets while managing liquidity, currency and credit risks.

Local-currency financing can reduce the mismatch between foreign-currency debt and local-currency revenues.

7. The Foreign Exchange Challenge

Foreign exchange risk is one of the most important issues in infrastructure finance.

A project may generate revenue in local currency while its debt, equipment or equity is denominated in US dollars or euros. Significant currency depreciation can weaken the project's ability to service foreign-currency obligations.

Potential solutions include local-currency debt, currency hedging, indexed tariffs, partial foreign-currency pass-through, blended structures and development finance guarantees.

8. Public-Private Partnerships

PPPs can provide a mechanism for governments to work with private investors to deliver infrastructure. But PPPs should not be treated simply as an alternative source of government funding.

A successful PPP requires clearly defined outputs, appropriate risk allocation, credible counterparties, transparent procurement, bankable contractual arrangements, appropriate tariff or payment mechanisms and long-term institutional capacity.

The private sector should take risks it can manage efficiently. Government should retain responsibilities and risks that are fundamentally public in nature.

9. Project Preparation Is Infrastructure Finance

One of the most persistent barriers to infrastructure investment is the gap between an infrastructure idea and an investable project.

A project may have strategic importance but still lack reliable demand analysis, technical feasibility, environmental and social assessments, land rights, credible revenue assumptions, contractual structures, financial models, risk allocation or a procurement strategy.

Without these elements, investors struggle to price risk.

Project preparation should therefore be considered part of infrastructure financing rather than a preliminary administrative exercise.

10. Building the Bankability Pipeline

Africa does not need only more infrastructure proposals. It needs a larger pipeline of investment-ready infrastructure projects.

Governments and project sponsors need to identify projects early, undertake disciplined preparation and engage potential financing partners before key decisions become locked in.

A strong project pipeline should distinguish between Concept, Development, Structuring, Financing, Financial Close, Construction and Operations. Each stage has different capital requirements and risks.

11. A Practical ECA-Enabled Financing Structure

Where an infrastructure project includes significant imported equipment or services, an ECA-enabled structure can form part of the wider financing package.

A simplified architecture is: Government / Project Sponsor -> Project Company / SPV -> Sponsor Equity + DFI Financing + Commercial Debt + ECA Support -> EPC Contractor / Equipment Supplier.

The ECA may provide direct financing, guarantees or insurance supporting eligible exports. This can reduce specific credit or political risks and potentially extend financing tenor. ECA eligibility requirements and procurement conditions should be assessed early.

12. What Investors Need

Ultimately, investors need clarity: what the asset does; who pays; how revenues are collected; what happens if demand falls; who bears construction and operating risk; what happens if regulation changes; how currency risk is managed; and how capital can ultimately be repaid or realised.

Good infrastructure finance does not eliminate risk. It makes risk visible, measurable and appropriately allocated.

13. Building a More Integrated African Financing Architecture

Governments bring policy authority and public investment. DFIs bring long-term capital and risk mitigation. ECAs bring export-linked finance and credit protection. Commercial banks bring lending capacity and financial discipline. Institutional investors bring long-duration capital. Insurers provide risk transfer. Private infrastructure investors provide equity and development expertise. Project developers bring execution capability.

The opportunity lies in connecting these capabilities rather than treating them as competing sources of capital.

14. From Financing Gap to Investment Opportunity

Africa's infrastructure financing challenge is significant. But the size of the financing gap should not obscure the opportunity.

Infrastructure investment can support productivity, trade, industrialisation, urban development and improved access to essential services.

The challenge is to build structures capable of converting that opportunity into investable transactions.

Better preparation. Better risk allocation. Better financing structures. Better coordination between public and private capital.

Leanon Brothers Perspective

Africa's infrastructure future will not be financed by one institution, one investor or one financing instrument.

It will be built through partnerships between governments, project sponsors, DFIs, ECAs, commercial lenders, institutional investors and strategic capital.

The role of financial and strategic advisory is to connect those participants around projects that are commercially credible, developmentally meaningful and capable of reaching financial close.

Sources & References

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