

# Focussing Africa's investment in infrastructure – time for report cards?!

*Vishal Agarwal*

*Infrastructure in Africa is receiving new spot light. Maybe an unprecedented one... In this article we try to make the case for 'intervention'. Is it time to focus our intervention?*

## **Infrastructure development is key to economic development in Africa**

As a result of infrastructure investment in the late 1990s, poverty reduced by as much as 2.1 percent in low-income countries and 1.4 percent in middle-income countries..

In financial terms the need for investment in maintenance and expansion far outstrips the resources available from public budgets. The World Bank estimates that Africa's infrastructure investment needs are about \$18 billion a year for the period 2005-2015. Current estimates point to the need for doubling the existing spending on infrastructure in sub-Saharan Africa, for both investment and operation and maintenance – currently, from about 4.7 percent of GDP (which is already the highest in the world) to more than 9 percent over the next decade.

Clearly African countries have other pressing priorities (healthcare, education, poverty alleviation) and infrastructure competes for those same resources.

## PPI contributes significantly to infrastructure development

The 1990s saw a revolution as governments in developing countries turned to the private sector – to build, operate, finance, own, and transfer telecommunication facilities, power plants, ports and airports as well as toll roads – in hope that private expertise and finance would meet rapidly growing demands for infrastructure services.

But critics of privatisation might argue otherwise.

Private provision is thought to have contributed to adverse environmental impacts from infrastructure. Some services have become less affordable – with the end of public sector subsidies - and access by the poor to modern infrastructure services have in some cases been adversely affected.

Governments worldwide however are continually seeking to increase private capital flows to a broad range of infrastructure sectors. Getting investors excited about Africa's infrastructure is probably the biggest challenge we face. This is not necessarily because PPI projects in Africa do not make a return – as some would argue quite the contrary. It is however due to a host of other issues that this challenge persists – as illustrated in figure 1.

Private participation has led to improved services, but we should not automatically expect the introduction of the private sector to bring about major improvements. Private infrastructure schemes that fail to see commercial risk shifted to the private sector will bring fewer benefits, if any.

## The state of SSA's infrastructure – how do we compare?

By the end of 2003, infrastructure investments of over \$33 billion have been channelled to SSA alone. Comparing this to \$856 billion for the rest of the world (figure 2), Infrastructure related investments channelled to SSA is the lowest with a bulk of the investment lying in Latin America and the Caribbean. One would therefore expect that more private funds and managerial expertise are needed to meet rapidly growing demands for modern energy, telecommunications, water and transport in SSA.

## Private investment in SSA – where is it heading?

PricewaterhouseCoopers recently collated a database of historic and pipeline infrastructure deals in SSA. The data captured was

Challenges for PPI

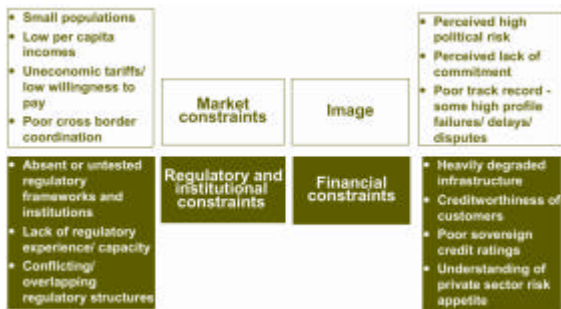
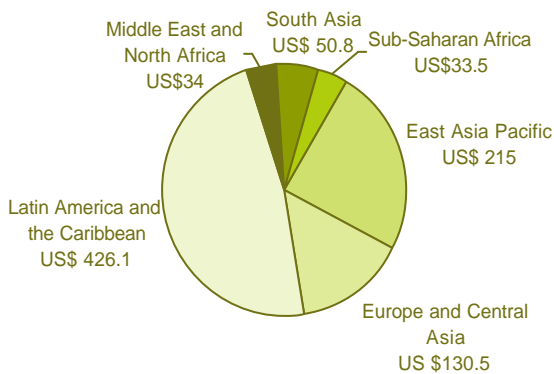


Figure 2

Investment flows

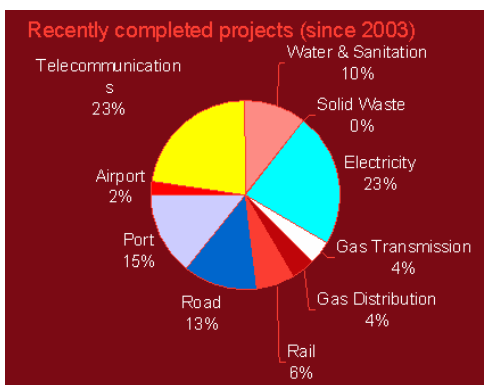


analysed to understand where investment was channelled in the past and where activity has been most prevalent in the recent years. Some trends from our analysis have been summarised below in the context of understanding investment in Africa's infrastructure and possible areas for intervention.

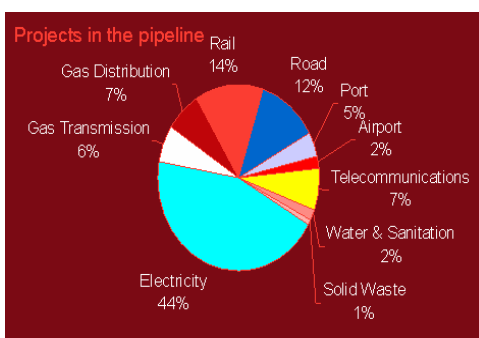
### Country trends

From the information collected it appeared that focus should be in countries which are already showing signs of success and are generating continued private sector interest. One could however argue that focus should really be on countries that are under-resourced (but reforming) or on the slow reformers as this is where intervention would be most beneficial. The point really is that based on the agenda of the development partner one can make this self determination. However, doing this without looking at some hard data will probably not generate the socio-economic returns sought by the development partner.

Figure 3



Source: PricewaterhouseCoopers analysis of data (n=48 deals)



Source: PricewaterhouseCoopers analysis of data (n=110 deals)

### Leading sectors

On a sector basis, our data shows strong historic activity in the telecoms and electricity sector with the strong interest in the electricity sector continuing through in the deals in the pipeline (figure 3). The road sector shows encouraging activity in both historic and pipeline deals.

### Forms of PPI

We continue to see signals of a 'herd mentality' – where governments are adopting what others are doing around the regions – without much thought to transaction structures other than concessions and straight privatisations.

This is alarming – surely we must know by now that ‘one size does not fit all’. Unless there is significant upfront structuring and analysis done around the type of transaction keeping in mind the unique challenges and issues related to that host country – the transaction is bound to end up facing challenges. Attempts to embrace ‘off the shelf’ models is probably a contributor to the blockage in the deals pipeline.

The trend towards ‘Greenfield’ project is more in line with the Millinieu Development Goals – which if we even want to attempt to achieve requires significant investment in new capacity.

### **Suggested priorities for PPI in infrastructure**

In summary, based on our analysis, we think that efforts should be focussed on key intervention areas. The following are some recommendations:

λ **Focus support on countries which seem to have turned the policy corner.**

Investors, could for example, focus on countries that demonstrate a strong political commitment to improving the investment climate, market reform and adoption of PPP principles – for example, Kenya, Ghana, Uganda, Tanzania, Senegal

λ **Focus on involvement in transaction structuring.**

There is some evidence that deals and bid processes are failing after reaching an advance stage. This could suggest opportunities to improve capacity or assist in providing proper deal structuring.

λ **Encourage greater emphasis on lease and management contracts**

This should be particularly evaluated carefully as an interim measure in ‘difficult’ privatisations. Distribution assets are a good example.

Whether you are a donor, a multi-lateral, development agency or other interested party in regenerating Africa’s infrastructure – it is indeed time for focussed intervention.

***Vishal Agarwal (vishal.agarwal@ke.pwc.com) is a career Investment Banker who specializes in project and infrastructure financings in developing markets. He has served in leadership positions in global advisory – where he has worked with governments, institutions and infrastructure developers in Asia, Eastern Europe, the Americas and the Caribbean.***

*Mr. Agarwal now heads the Infrastructure Finance for PricewaterhouseCoopers. Based in Nairobi, he covers the sub-Saharan African region.*