The Africa Business Agenda

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Doing business in Africa – from the perpective of CEOs and PwC executives on the continent

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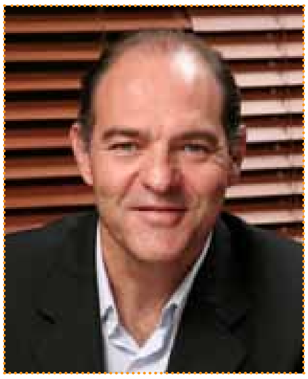
4. Infrastructure development



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Unlocking Africa's wealth through appropriate, affordable and sustainable infrastructure

A legacy of underinvestment and regional fragmentation

Infrastructure is a critical enabler of economic growth. At the same time, lack of infrastructure undermines productivity, raises production and transaction costs, and hinders growth by reducing the competitiveness of businesses as well as the ability of governments to pursue economic and social development policies. A substantial percentage of CEOs in our Africa survey say that inadequate infrastructure is a threat to growth. In the Congo-Brazzaville, the Democratic Republic of the Congo, Ghana, Mozambique, Tanzania and Zimbabwe, 80% or more of CEOs say that inadequate infrastructure is a threat to growth.

The far-reaching effects of Africa's infrastructure backlogs include:

- Constrained headline growth – at least 2-3% per annum;
- Inter-regional trade and consumer market fragmentation – inter-Africa trade is 6-8% compared to Asia and Europe at 28% and 60% respectively;
- Impeded diversification of economies – extractive and natural resource industries remain the primary economic drivers, which limits growth, job creation and the multiplier effects on infrastructure investments, sustainability and country competitiveness;
- Inflated costs – costs of logistics, power and bureaucratic red tape increase the cost of African products and the cost of doing business in Africa;
- Political risk – ultimately, the lack of infrastructure affects the quality of life of citizens – and as we've learned from the Arab Spring, the threat of social unrest linked to this is real.

These factors contribute to African countries being among the least competitive in the world. This is a problem that requires continental and regional collaboration, planning, solutions, funding, partnerships and implementation.

Factors driving demand for infrastructure

A number of factors are driving the increased demand for infrastructure, including oil and gas discoveries, mining, political change and the opening up of economies as well as increasing global interest in Africa's growth potential.

In West Africa, Nigeria, with its growing economy and significant population, continues to spread its commercial interests.

In the South, while growth in South Africa remains subdued, its infrastructure expansion plans, particularly in the power and transport sectors are significant.

Recent discoveries of natural resources in Mozambique, Namibia and Botswana will drive regional and corridor-type infrastructure developments.

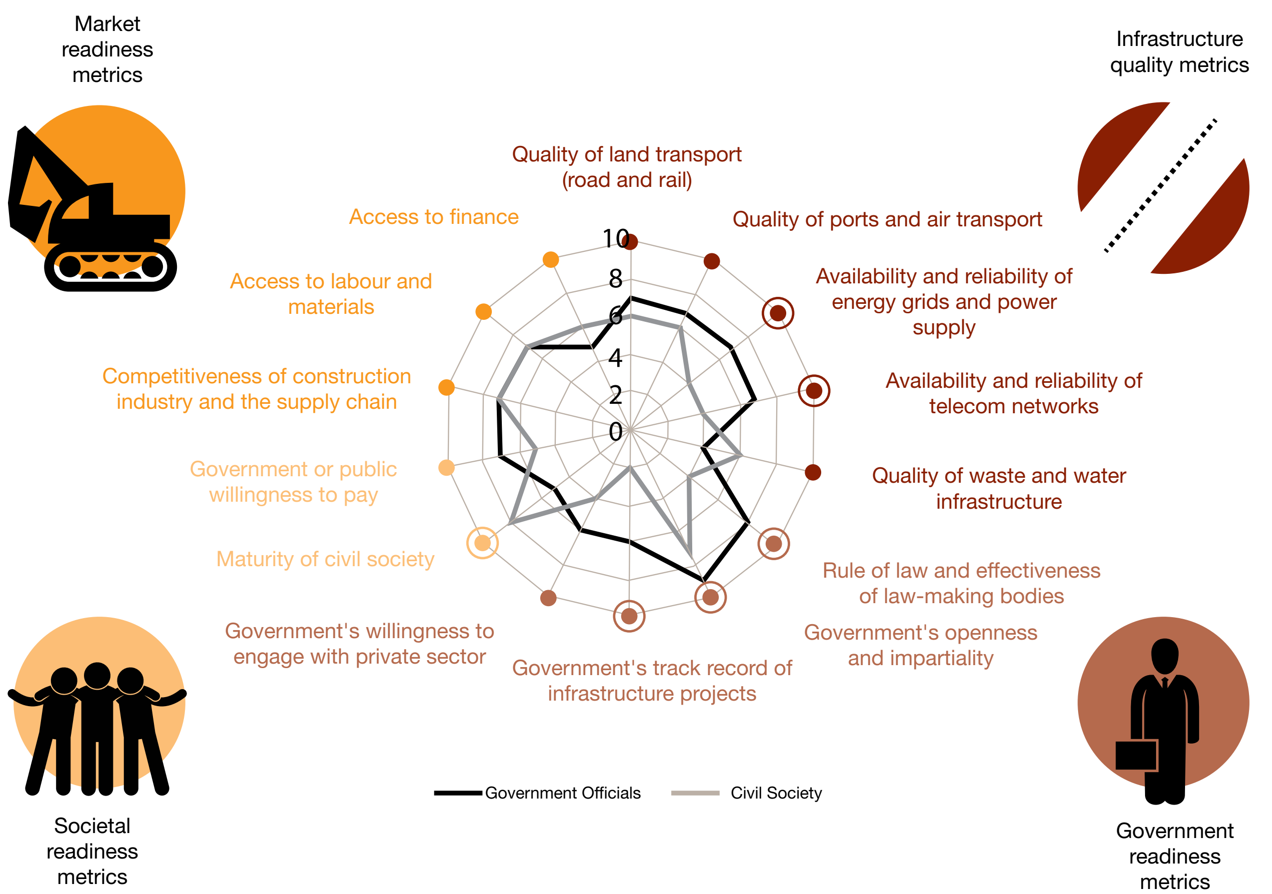
These factors are amplified by slow growth in mature markets, greater democratisation, availability of capital and increasingly more positive approaches towards foreign investment.

Critical issues

Most African countries are not investing enough, hampering their growth prospects and increasing the burden on future generations. Through our interactions with developers, funders, concessionaires, agencies and ministries, the following are cited as critical challenges: lack of finance, particularly at the early stages of project development and feasibility; lack of capacity within the entities responsible for central planning; bringing projects to the market, managing procurement, delivering the execution and operation stages; governance and transparency challenges, weak regulatory and policy environments and managing competing projects; and priorities and trade-offs.

The framework shown here is useful for taking stock of the infrastructure gaps, challenges and opportunities.

Infrastructure assessment framework



Positive prospects

Since its launch in 2001, the Africa Union and the New Partnership for Africa's Development (NEPAD) have developed and agreed numerous policies and programmes. Recently, the Programme for Infrastructure Development in Africa (PIDA) was initiated with the NEPAD Planning and Coordinating Agency (NPCA), the African Union Commission and the African Development Bank in collaboration with several other African stakeholders, including the regional economic communities and member states.

More than 50 significant regional projects have been identified by PIDA to deal with the projected 8- to 14-fold increase in demand by 2040 for road and rail transport, from 265 million tonnes up to two trillion tonnes through the ports and from 128Gw to 700Gw of electricity. Similar growth is expected in the urban, ICT and water sectors.

These corridor or multi-country programmes for infrastructure development will provide the basis for the industrial, manufacturing and agriculture sectors to fulfil their potential and contribute to economic growth.

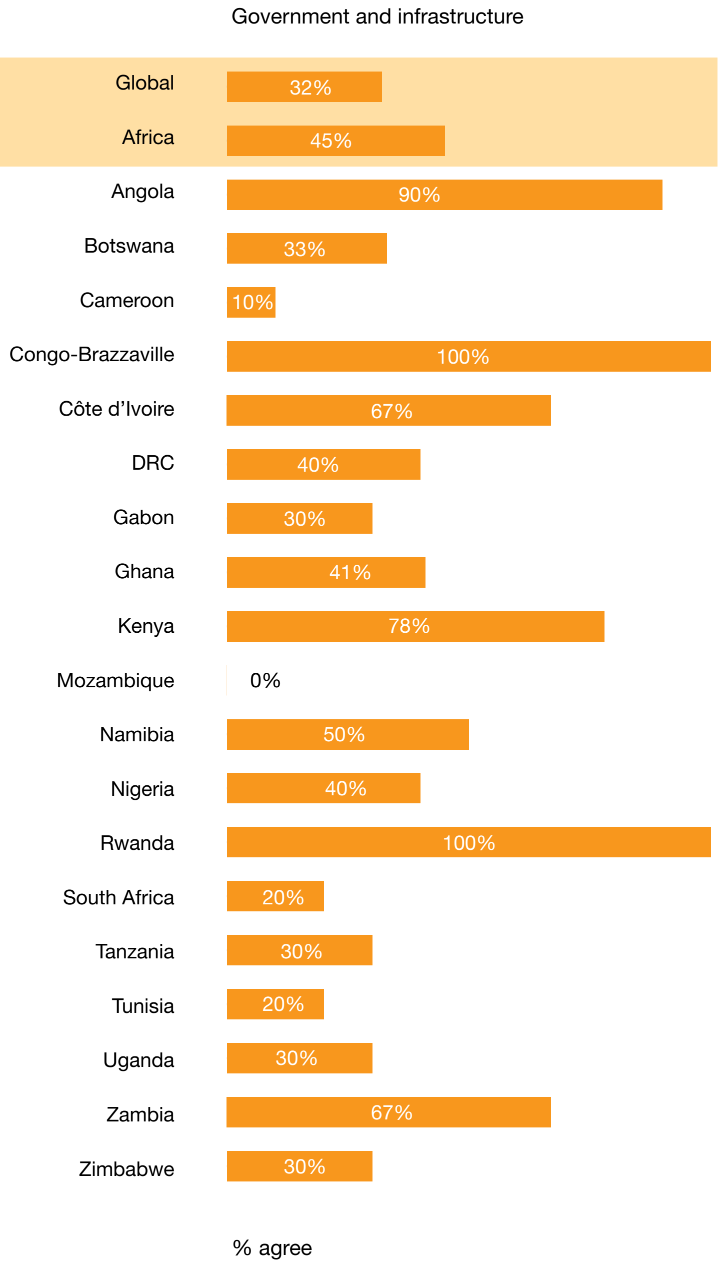
With greater political support and feasibility of regional projects, new sources of funding are available from international and local funders, sovereign wealth funds, pension funds, bond issues, pooling of funding and partnering arrangements.

China, the African Development Bank and the World Bank continue to be major players in infrastructure funding, with the latter two organisations having established much-needed project preparation funding facilities to assist governments and agencies in bringing projects to market more successfully.

Those countries that can realise the benefits of regional cooperation and development will be best placed to break through their most challenging development barriers. But their success will depend on the establishment of clear political support, a formal legal and regulatory structure, a procurement framework that can be understood by both procurers and bidders, and a credible project timetable.

Figure 9: Most CEOs believe governments could be doing more

Q.16: Thinking about the role of government in the country in which you operate, how strongly do you agree or disagree that the government is taking adequate steps to improve the country’s infrastructure?



With the exception of countries like Rwanda, Congo-Brazzaville, Angola, Kenya and Côte d’Ivoire, most CEOs in Africa do not believe that governments are doing enough to improve infrastructure. However, as the global average of 32% suggests, this is not a condition peculiar to Africa.

While the importance of infrastructure as a driver of development cannot be overemphasised, African CEOs also identified ensuring financial sector stability (50%) and reducing poverty and inequality (58%) as areas in which governments should be taking more decisive action.

Aliko Dangote

An in-depth interview with Aliko Dangote, President and CEO of Dangote Group, Nigeria

Aliko Dangote is President and CEO of Dangote Group, one of the most diversified business conlomerates in Africa. The Group's activities encompass cement manufacturing, sugar and salt refining, flour and semolina milling, pasta and noodle manufacturing, poly products manufacturing, port management and haulage logistics, real estate and the Dangote Foundation.

Q: How confident are you about growth prospects going forward, in Nigeria and Sub-Saharan Africa overall?

Our business strategy has really paid off. The year 2012 was particularly good for us in terms of our record of excellent performance. In 2012, we launched a number of projects, including a fertiliser plant and an oil refinery. These are big-ticket projects. We are also looking at establishing more cement plants and expanding our sugar business in line with the new federal government backward integration policy. Our business strategy has been to look at the country's imports and invest in critical areas of need. By so doing, we have helped to make Nigeria self-sufficient in some commodities such as cement, and also a net exporter of these products, specifically within ECOWAS.

There are a lot of investment opportunities in Nigeria and Africa. Discerning investors know this and are trooping in to have a piece of the pie. The only thing keeping others back is the issue of the negative perception that some people have about the continent. But things are changing fast. Africa is one of the fastest-growing regions in the world. The return on investment in Africa is also one of the highest. So, the potential for growth is there. We need to transform this potential into reality. In addition, you have to be innovative in this market. If you bring a textbook solution and try to apply it here, it won't work.

To tell you the truth, the best market today is sub-Saharan Africa and I have not seen any country where you can make money like in Nigeria and I say it to anyone who cares to listen. The opportunities here are so tremendous.

Q: How do you balance growth trajectories with profitability?

We are currently diversifying our business. Some businesses will have greater or lesser profitability, depending on the industry. In petrochemicals or refining, for instance, the refining margin is low, perhaps no more than 10-12%, but what we are doing is not just refining, we are also extracting a lot of high-value items out of the import pool. That requires a huge investment.

For example, today, I don't control all of the costs in my sugar business because I don't grow my own sugar. I only add value. If the cost of raw sugar goes up too high, I can't make much money, but if it falls, I can make more money. By producing sugar, you end up with excess capacity. When you crush the by-product, you end up with a shell which can power high-pressure boilers to produce power, which you can pass through the national grid. You produce ethanol which you can mix with diesel for fuel and other by-products can be used for animal feed. So there is no waste and it is about value distribution and putting things back into the economy, including employment.

Q: What are some of the risks to growth that worry you?

The biggest issue that we have that really worries me is the lack of infrastructure. Our leaders are beginning to understand this. Without infrastructure, no one will come to your country to invest.

I also have a phobia about debt. The way we operate the company is this: we take on debt and we go through our trajectory to deliver what we promised to deliver. We accumulate cash and after two years or so we have more money to invest. Once you do your numbers right and know what you are doing, everything falls into place. There is risk in anything. What you need to do is make sure that you minimise those risks and that they are calculated risks.

Corruption and oil theft in Nigeria are two other areas that I am more worried about. When you create jobs and people have disposable income, there is less restlessness, particularly among the youth. It is very simple. We have abundant resources, but we need the right attitude to get there.

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