

Advisory Outlook



Strengthening Africa's Ports

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Ports - Africa's trade gateway

Africa, despite its enormous size, still represents only a small portion of world trade. Exports are largely commodity based and include oil, coal, iron ore, ferrochrome, precious metals, cocoa, palm oil and timber. Yet, Africa is growing and many of its larger economies are beginning to diversify away from a traditional commodity focus. Ports represent the gateways for these commodity exports, but as countries grow and develop, ports are also essential for sustaining and improving more robust and diverse growth in African economies through the import and export of manufactured goods and other products.

Ports are a vital part of the supply chain in Africa with each port having a far-reaching hinterland often spanning a number of countries. Ports have thus become a natural focus for regional development.

A number of global port logistics trends have emerged in the last decades, including the emergence of 'hub' ports, which facilitate dominant volumes of global trade in and out of a region. In Africa, the trend is gathering some momentum but is constrained by lower volumes of cargo relative to other parts of the world, poor port performance, hinterland dominance focused on certain ports, and global shipping routings that have not replicated the hub-and-spoke model more commonly found in other parts of the world.

PwC Africa's Capital Projects and Infrastructure (CP&I) Transport and Logistics team recently released a report on African Ports. The report analyses the current operating conditions of the most significant ports in sub-Saharan Africa (SSA) and was based on a combination of information obtained from interviews with port authorities and port operators, together with detailed research, incorporating our extensive knowledge of the port, trade and transport sector.

The report concluded in part that Africa needs to take advantage of the economic potential of its ports and shipping sector if it is to realise its growth ambitions. Investment in ports and their related transport infrastructure to advance trade and promote overall economic development and growth is therefore vital - particularly in emerging economies that are currently under-served by modern transportation facilities.

Why ports matter

Globalised supply chains have enabled goods and services to be transported across the world to meet the ever-increasing demands of populations. Ports are gateways for 80% of global merchandise trade by volume and 70% by value. As an emerging market region endowed with vast natural resources and a young and growing population, SSA must accelerate its market access and trade both across the region and with the rest of the world. This is important to stimulate economic growth, diversify its economies, reduce the inflationary effects of weak transport and logistics infrastructure, become globally competitive, create employment and reduce poverty.

Sub-Saharan Africa (SSA) has been on a strong, sustained growth trajectory since the late 1980s. Growth is forecast to pick up from 2.6% in 2017 to 3.9% in 2022, and is predicated on commodity exports and rapidly transforming economies. While many of these economies are growing from a small and often fragile base, it is clear that growth is

being led by Africa's trade access to large global users of natural resources.

Ports provide a gateway to this African trade. Their competitiveness and positioning in global supply chains defines Africa's ability to export and improving imports sustains greater economic resilience. Facilitating improvements in African trade through ports is complex. Ports are often fed by inland corridors that have their own infrastructure, delay and cost issues. Many African countries have no direct access to the sea.

Improving the way ports are run and managed, creating greater capacity and reducing delays to shippers is key to making ports more efficient. This is key to reducing the overall cost of logistics and improving reliability of goods in transit. There has been a lag in port investment, with port expansion and expenditure on port assets often not keeping pace with trade growth. Together with poor operational performance this creates a bottleneck to economic growth, increasing logistics costs, reducing reliability and making African countries less globally competitive.

A further challenge for African ports is that shipment sizes are small compared to those globally, driving up the unit cost of a shipment. This means moving a single container (or any other unit of volume) is 1.5 to 3.5 times more expensive from Africa than for high-volume trade routes over a comparable distance.

Attracting Investment

Government intervention significantly impacts investment returns as a result of the manner in which they plan, regulate, own and operate ports in Africa. Governments can significantly improve the investment environment in the following three ways:

1. There should be greater collaboration between countries in establishing efficient international and local trade and in acknowledging the role of specific ports.
2. Investments should boost natural competitive advantage.
3. A favourable bona fide investment environment should be created.



In addition to encouraging infrastructure investment, governments can also do much to create a better operating environment in the short to medium term. Measures to consider include:

- Moving to a landlord ownership model that allows private operators to drive port efficiencies by investing in better equipment, logistics processes and systems.
- Streamlining customs and statutory processes can eliminate significant bottlenecks in container dwell time.
- Better traffic management in and around ports would enable port freight to better negotiate congested road systems.

These objectives are unlikely to be achieved merely through unilateral decisions and bilateral negotiations alone. Undertaking of a Ports Master Plan for SSA ports under the auspices for example of the African Union (AU) would provide considerable benefits and allow a more coordinated and integrated approach. This plan must be agreed to by all governments, and should be binding insofar as it guides the role of ports in SSA to benefit trade at a subcontinental level.

Taking advantage of the opportunity

We believe that the global transportation and logistics industry can no longer afford to ignore developments in Africa and that logistics service providers and ports in particular, will continue to play a key facilitating role in enabling economic growth across sub-Saharan Africa.

There remains a strong case for Africa to focus on investment in ports. Developing port infrastructure ahead of demand, focusing on the ports with the greatest volume potential (the 'hub' ports of the future) and improving their overall functioning so that through productivity gains they are increasingly attractive as destinations for global trade.

Increased volumes of trade and more productive and attractive ports will accelerate changes in global shipping routes serving Africa. As in other parts of the world, this will lead to increased integration with global shipping and trade routes, partly through the allocation of larger vessel sizes - reducing transit times and reducing the unit cost of transport to and from the continent.

Whether you represent government, port authority, port operator, shipping line or logistics provider, we are hoping that our assessment of sub-Saharan ports will help you better understand where the greatest opportunities lie in these rapidly changing gateways to Africa.

Read the full report: [Strengthening Africa's gateways to trade](https://www.pwc.co.za/en/publications/african-ports.html)
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