

Advisory Outlook

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West Africa: The Continent's Growth Investment Engine

A region of unparalleled investment opportunities

West Africa is increasingly identified as an attractive destination for investors across all economic sectors. Its growing population and abundant resources continue to drive steady economic growth, as seen by a 6% average annual growth rate over the past decade. In addition, improved governance and political stability, institutional reforms, declining trade barriers, adoption of technology, and a re-emerging middle class continue to contribute to the pace of development of the region.

Against the backdrop of continued economic growth in the West African region, the need for enabling investment is clearly evident. Although requirements vary from country to country, a huge demand-supply gap currently exists across the West African region in key economic sectors such as Financial Services, Energy & Power, Heavy Industry / Manufacturing, Consumer & Retail, Transport, Healthcare, and Mining.

It is generally accepted that Cities are the world's engines of growth, and this is strikingly so in the developing world. The continent's cities, however, contend with those classical issues that are at the heart of urban policy making viz infrastructure, employment, population growth, economic sustainability, environmental viability. It suffices to state that challenges such as overcrowding, unplanned and chaotic growth, insufficient provision of municipal services, from policing to healthcare to education to electricity and sewage – are top of the agenda in many African cities, primarily because of their dynamic expansion.

In 2015, PwC issued a report *Into Africa: The Continent's Cities of Opportunity* based on a study of 20 of the continent's cities that were judged to be the most dynamic and focused on the future. The findings reveal that West African cities, offer extraordinary opportunities for virtually any kind of economic enterprise. We believe that despite existing challenges such as disease, conflicts, decline in commodity prices etc, the consistent growth of West African (and African) cities over the next decade will surely alter the continent's socioeconomic landscape. We also believe that it will permanently alter the rest of the world's perception of Africa in an historic and transformative way.

Articulating the West Africa investment opportunity

West Africa, and in particular, Nigeria, has been at the center of increased investor interest especially as growth continues to slow down in more mature emerging markets such as China, India and Brazil. With a substantial portion of its population below the age of 15, West Africa possesses one of the youngest and fastest growing populations in the world.

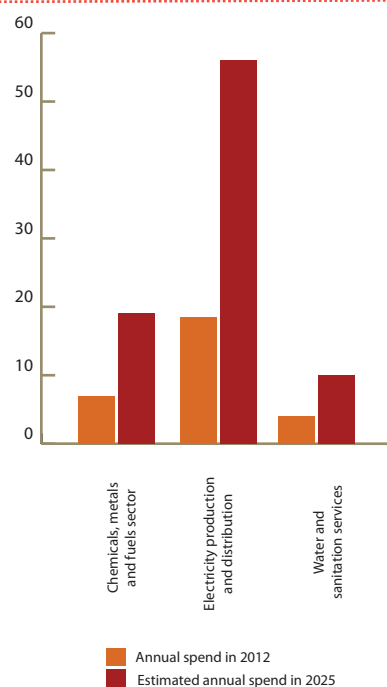
While West Africa's investment story is thought to be predominantly that of **infrastructure development**, compelling opportunities exist in many **non-infrastructure focused sectors** and this is driven by the attractive demographics of the population which include substantially increased wealth and disposable income of the rising middle class.

Infrastructure development in West Africa will have an enormous impact on the growth of the

region and its people. A good example is the Nigerian power sector which is undergoing a transformation following the privatisation and successful hand-over of government-run utilities to private sector investors. Over \$3bn was realised by the government from the partial sale of generation and distribution assets. Public and private agencies have estimated a yearly spend of \$10bn over the next 10 years to “fix” the sector. The ripple effect of getting this sector right in a country is huge. For instance, it is estimated that about 40% of manufacturing costs is spent on power generation today.

By developing infrastructure, countries in the region can diversify their natural resource dependent economies and improve their balance of payments constructs. New linkages will be created to drive regional and international trade, which will drive industrialisation and the emergence of new global players in key industries. The population will experience substantial empowerment and employment from direct and ancillary industries that will be rejuvenated, while the governments will see an increase in tax revenues.

Planned increases in annual infrastructure spend across Africa's seven economies * (US\$ billions)



* Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Africa and Tanzania

Source: PwC Capital projects and infrastructure in Africa: Trends, Challenges and Future Outlook (2015)

With the economic slowdown in the global markets and key economies feeling the strains of the recent oil price drops, West African infrastructure provides the opportunity to create “new asset classes” for local and global investors.

On the other hand, several non-infrastructure economic sectors across the region are showcasing the attributes that growth investors find very attractive. This has sparked interest in consumer focused industries such as financial services, consumer & retail, and media & technology. Global corporations have started dipping their toes into the “last frontier.” It has become more common to see American, European and Asian companies acquiring leading businesses in West Africa. Furthermore, private equity firms have raised billions of dollars to identify growth

capital opportunities in anticipation of exits to strategic buyers in the near future.

We have witnessed several landmark transactions in the consumer sector. The financial services sector has also had its share of foreign investor interest, ranging from insurance to commercial banking to pension fund administrators. There are also exciting activities in the technology, media, telecom space. Global telecom brands have been consolidating their position across West Africa while global media players are increasingly looking to Africa for content.

So despite the challenges and, in some respect against all odds, West Africa is attracting much needed capital into infrastructure and into its growing corporates. These are early days but already we are able to sense the tip of the iceberg in investment and deal activity. Much more is likely to come.

Overcoming key challenges in West Africa investing

Challenges to investing across West Africa revolve around the following:

A. Scarcity of “investable assets”

There is scarcity of investable assets within an abundance of asset seeking investors. Most businesses are family owned and run with very little recourse to global best practices hence making it difficult to meet attributes that foreign investors require. This gap is somewhat filled by private equity funds who are more familiar with taking on and managing riskier assets. One of their value proposition is to assist the business owner to institutionalise his operating model. This often means creating a proper functioning board with a governance framework; instituting a budgeting, performance tracking and reporting framework, and; rolling out accounting software.

B. Expanding access to financing

Mobilising private sector funding is crucial given the limitations on government finances across the region. There is an increasing drive towards new funding models such as public-private partnerships (PPPs) which are increasingly prevalent in the region. Export credit agencies (ECAs) are also expanding and taking on new roles in project and infrastructure financing. ECAs which are private or often quasi- governmental institutions that act as intermediaries between governments and exporters to issue export financing have notably been involved in such projects as the Nigeria LNG, as well as in the telecoms market.

There is also need to exploit alternative means of funding by harnessing growing Pension funds, Sovereign Wealth Funds and Insurance funds. These require the development of structured products tailored for the investment / financing life cycle of the projects. Project sponsors and developers must also look to structure their projects appropriated to be able to secure funding from Development Finance Institutions (DFIs) and International Development Agencies (IDAs).

C. Developing an organised financing marketplace

One of the key challenges that local companies face in West Africa is that they do not have an

organised robust way to raise funds, be it equity or debt. The local capital markets are thinly traded and do not have a diverse and institutional set of investors active in the market. As a result, most companies rely on private transactions to raise capital. This is very inefficient and costly.

The regional stock exchanges increasingly see the opportunity to attract new listings. However, this must be done in conjunction with creating greater liquidity to the trading of securities currently listed on the exchanges, as well as attracting the right profile of institutional investors. The development of the capital markets hinges on effective regulation which should promote the right behaviour from investors, issuers and other market participants. Unfortunately, this framework is in its infancy in most West African markets.

D. Institutionalising enabling regulatory frameworks

Investing into businesses and infrastructure projects in West Africa usually needs to be long term in nature and involve a complex set of key stakeholders with diverse interests, and in certain cases potentially opposing (e.g. financial returns vs. social benefit). It is thus critical for countries in the region to create enabling regulatory frameworks for sustainable infrastructure development complemented by policy frameworks and / or market rules that are enforceable and fair. Furthermore, institutionalising reforms and policies by passing the appropriate laws would limit political risks.

E. Others:

- Currency risks can be overcome by the development of adequate and robust hedging instruments which do not handcuff investors into investing in asset classes they traditionally would not want to be exposed to.
- Local capacity challenges require a continued investment in building local / regional competence alongside delivering successful businesses or projects. As such, a keen focus must be maintained on marrying local talent with international expertise right from the start of the business or project to ensure appropriate skills transfer.
- To overcome unnecessary leakages / wastage that limit financial returns, corruption needs to be dealt with, with a zero-tolerance policy and the prosecution of individuals to address this scourge and rid the region of its bad reputation. In addition, the region will benefit from continued increase in focus on a more disciplined and holistic project planning process which starts from establishing the business case for the project to funding the project.

The time to invest in West Africa is now

West Africa is making giant strides towards industrialisation and free regional trade in order to drive inclusive growth. The success of these initiatives however, depends largely on increased participation of private sector participants. This presents tremendous opportunities for investors. With expectations, optimism and willingness among stakeholders to embrace new ideas and partners at a high point, there is no better time than now to invest in unlocking these potentials.

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