Understanding West Africa's Infrastructure Potential

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West Africa is increasingly identified as an attractive destination for investors across all economic sectors. Its growing population of over 300 million 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 attributable to an increasingly empowered and mobile workforce continue to contribute to the pace of development of the region.

Against the backdrop of continued economic growth in the region, the need for enabling infrastructure is clearly evident. Although requirements vary from country to country, a huge gap currently exists across key infrastructure areas such as Power, Transport, Water and Healthcare both within and across the countries in the region.

In 2014, PwC conducted a survey of key players in the infrastructure sector, including donor funds, financiers, government organisations and private companies across sub Saharan Africa. The report, titled Trends, Challenges and Future Outlook: Capital Projects & Infrastructure in East, South & West Africa indicates an opportunity-filled future for infrastructure development in sub-Saharan Africa. Infrastructure spend in the region is estimated to reach US$180 billion per annum by 2025.

While Africa's infrastructure lags well behind that of the rest of the world, with over 30% in dilapidated conditions, there appears to be a renewed enthusiasm among leaders and civil society on the continent to improve the situation. There is widespread recognition of Africa as a growing consumer market, a future skills and innovation pool as well as an owner of abundant natural resources. This combination of factors is driving interests in infrastructure investment and development for both local and foreign players.

Articulating the opportunity

The impact that infrastructure development in West Africa will have on the growth of the region and its people are enormous. Transformation of natural resource dependent economies into more industrialised regional and global trade partners, economic empowerment of a young and growing population, creation of new asset classes for investors, diversification of government revenues are a few illustrative benefits of developing infrastructure in the West Africa region.

To illustrate, the Nigerian power sector is undergoing a transformation which commenced over the last few years with privatisation and successful hand-over of government-run utilities to private sector investors. These private sector investors have returns objective that serve as strong incentives to make the acquired utilities substantially larger and more efficient. Over $3bn was realized by the government from the partial sale of generation and distribution assets. Furthermore public and private agencies have estimated a yearly spend of $10bn over the next 10 years to “fix” the power sector. The ripple effect of getting this sector right in a country is huge. For example, it is estimated that about 40% of manufacturing costs is spent on power generation today.

The West Africa region has similar or more challenged infrastructure development statistics with the rest of sub Saharan Africa. In the region, only about 30% of the population have access to electricity compared to 80% in other parts of the developing world; transport costs are about 100% higher; road access rates are about 34% compared to over 50%; internet penetration rates of roughly 6% compared to 40%; and underutilized water resources, according to the Programme for Infrastructure Development in Africa (PIDA).

By developing infrastructure, countries in the region can diversify their natural resource- (e.g. oil, cash crops, and solid minerals) 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.

With the economic slowdown in the global market and key economies in the West Africa nations feeling the strains of the recent oil price drops, the West African infrastructure sector provides the opportunity to create “new asset classes” for local and global investors and /or asset managers, with potential for relatively good returns.

Key challenges in delivering West African infrastructure

Infrastructure development challenges across West Africa are unsettlingly similar. Historically, these range across inadequate project preparation, unmitigated project viability/bankability gaps, inadequate governance frameworks and inadequate funding. A prominent view is that limited access to funding is perceived as the most significant challenge in delivering large complex infrastructure projects within the region. However, interestingly our examination of projects indicate inadequate project preparation / planning as the most significant factor in failed project delivery in the West African region.

Poor project planning consistently leads to project concepts that haven’t been adequately vetted coming to market. This, without doubt, results in bankability and viability challenges for the projects and ultimately access to funding becomes limited or non-existent. Recurrent characteristics of improperly planned projects that came to market and failed include - nonexistent or weak infrastructure master planning frameworks; limited capacity to assess and identify technically feasible and economically viable projects; limited technical and commercial expertise incorporated into the project preparation phase; and no risk mitigation strategies to address a clear mismatch between the long term nature of infrastructure financing and the traditional short tenure loans that local banks are accustomed to.

Robust and diligent project planning is perceived by project sponsors to be an expensive undertaking in the short run. However, the shortcuts taken by these sponsors consistently result in very expensive project failures as well as improperly structured and/or executed capital projects. These have substantial unfavorable implications for the project sponsors /investors, financiers and the public.

Several West African countries also have historically had challenges in taking projects through public procurement. Capacity / expertise issues in the public sector, a perceived lack of transparency or sound governance practices and protracted bureaucratic processes effectively reduce investor appetite and risk tolerance.

Another inherent challenge in West Africa infrastructure development is reconciling relatively shorter ‘political life cycles’ with often longer ‘infrastructure life cycles.’ Few politicians/decision makers are selfless enough to plan for infrastructure projects the benefits of which may not be realised during their tenure. Furthermore, the risk of long term projects being discontinued following a change in government further complicates the political versus infrastructure tenure challenge.

Finally, inadequate project monitoring and non-enforcement of performance contracts in West Africa also lead to significant infrastructure quality issues.

Priorities for improvement

Key select themes that will accelerate sustainable infrastructure development in the West African region include an enabling regulatory environment; developing and implementing robust infrastructure master plans; capacity building; harnessing the private sector; and expanding access for infrastructure finance.

Institutionalising enabling regulatory frameworks

Infrastructure projects are 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). This makes it 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.

Certain project and sometimes sector-wide challenges experienced in the region today illustrate a fundamental need for reforms to policy, legal and regulatory frameworks. For example, streamlining the number of government agencies and/or state-owned institutions with administrative and/or regulatory oversight for infrastructure planning / delivery will eliminate duplication of responsibilities, reduce bureaucracy and improve overall decision-making. This will provide sponsors and financiers with a lot more comfort and confidence to take on risk, given the typical lifecycle of infrastructure investments.

Furthermore, institutionalising reforms and policies by passing the appropriate bills and laws would limit uncertainties that come with a new political regime which might seek to reverse the development efforts.

Integrating national and regional infrastructure master plans

Infrastructure projects require considerable capital investments and the quantum of such investments could have significant impacts on public and private sector resources. To this end, it is imperative that a clear understanding of the prevailing state of infrastructure availability/ deficiency is established, and this must precede any major capital investment. Greater infrastructure needs / deficiencies in a region usually indicate an increased likelihood of capital project interdependencies. As such, this necessitates credible master planning and integrated project planning. However, this is often simultaneously done at different government levels (national, state, and municipal/local) operating at cross-purposes. As a result the project interdependencies across these different levels of government are usually improperly assessed.

Establishing the business case for infrastructure projects should be carried out in a holistic fashion. Integrated infrastructure master plans for the region should be underpinned by a sound evidence base, developed across national boundaries, and must be aligned with local or sub-national sector-based infrastructure plans.

This holistic approach would ensure that infrastructure projects are subjected to rigorous needs tests, thereby avoiding the likelihood of over- /under- development. It will significantly reduce number of projects either abandoned or that do not meet their set objectives.

Capacity building of key stakeholders

Infrastructure development projects require broad mix of diverse skills and competencies including engineering, legal, regulatory, commercial, management, finance, assurance etc. The level of competence locally available in a region is usually built as a result of the experience which comes with multiple successful project executions. West Africa is challenged in this regard and as such we need to focus in systematically developing / deepening regional expertise in order to successfully build and sustain infrastructure.

Recent infrastructure acquisitions in the region have seen increased technical relationships and agreements between local investors or financial sponsors and foreign/ global experienced technical partners or advisers. This is absolutely necessary for credible infrastructure delivery in the region given Africa's current infrastructure delivery capabilities. However, a keen focus must be maintained on marrying local talent with international expertise right from the start of the project to ensure appropriate skills transfer. Unending importation of expertise on a large scale is an incredibly expensive enterprise for the longer term infrastructure development cycle in West Africa. Sustainability requires a continued investment in building local / regional competence alongside delivering successful projects.

The development of training centers for both private and public sector stakeholders is one of the easier to implement initiatives that should be adopted by more knowledge based organisations.

Harnessing private sector investment

Mobilizing private sector funding is crucial given the limitations on government finances across the region. Nearly two-thirds of respondents in the PwC Infrastructure survey indicated external private sector financing for capital projects as being critical. There is an increasing drive towards new funding models such as public-private partnerships (PPPs) which are increasingly prevalent in the region. This funding model is in use in the US$2 billion six-lane dual carriageway connecting Lagos and Abidjan via Cotonou, Lomé and Accra. In Sierra Leone, the Government recently announced that the China Railway International Company will build a new US$200 million international airport using a PPP framework with financing from China's Export-Import Bank. The Nigerian Government has successfully adopted public private partnerships for several transport projects; recent examples include the 2nd Niger Bridge and the Lekki-Epe Expressway.

Leveraging private sector funds and management expertise in the planning, delivery, operation and maintenance of infrastructure projects is only achieved in a transparent enabling political/legal/regulatory environment. Reform programs should protect both private investors and the populace without discouraging or stifling competition.

The key criteria for successful private sector participation include strong political support, a committed sponsor, a sound regulatory framework, viable off-takers or source of service fees, support from users of the service and appropriate allocation of risk amongst key stakeholders.

Expanding the pie in sourcing infrastructure finance

West African economies in the region are typically dominated by short term financing provided by local financiers, usually commercial banks. Foreign commercial banks which may be able to provide longer tenure financing are limited due to perception of regional / country risk and the inadequate hedging instruments for dollar-denominated financing.

There is the clear need to access and exploit alternative means of funding for infrastructure projects. This included 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 infrastructure 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).

The funding structure of a significant number of projects embarked upon in the West African market clearly indicate a more effective capitalization structure, with lower pricing and increased flexibly, could be achieved with better project planning and a more structured fund raising process.

The time is now

Infrastructure development's impact on economic growth and poverty reduction cannot be over stated. The World Economic Forum estimates that every dollar spent on a capital project generates an economic return of between 5% and 25% per annum. Conversely, the lack of infrastructure affects productivity and raises production and transaction costs, which hinders growth by reducing the competitiveness of businesses and the ability of governments to pursue economic and social development policies.

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 improved infrastructure. This presents tremendous opportunities for businesses. With expectations, optimism and willingness among stakeholders to embrace new ideas and partners at a high point, there is no better time to invest in unlocking these potentials than now.

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