



Press Release

Optimism and opportunities abound in Africa's Infrastructure space – PwC report

Dealing with Africa's infrastructure backlogs and its future demands is high on the agendas of leaders and civil society on the continent and abroad. While the continent's infrastructure currently lags well behind that of the rest of the world with some 30% in a dilapidated condition, there is widespread recognition of the vast business opportunities on the continent as a growing consumer market as well as the vast opportunities for infrastructure investment and development. According to PwC's *'Capital Projects & infrastructure in East Africa, Southern Africa and West Africa: Trends, Challenges and Future Outlook'* report issued at a media parley in Lagos today, infrastructure spends in the region is estimated to grow from US\$ 70 billion in 2014 to US\$180 billion per annum by 2025.

The report which presented the findings of a 2014 survey of key players in the infrastructure sector, including donor funds, financiers, government organisations and private companies across East, West and Southern Africa, indicated an opportunity-filled future for infrastructure development in sub-Saharan Africa. The sectors surveyed included water, transport and logistics, energy, mining, telecoms, and real estate, with the main focus being on economic infrastructure.

Highlighting the different stages of development and uniqueness of each country, the report provides insights into the world of infrastructure delivery across African countries and regions in sub-Saharan Africa (SSA). It showcases the drivers for success, the current thinking and challenges stakeholders are experiencing within the region.

More than half of respondents indicated that their planned spending on infrastructure – both new projects and refurbishment of assets – would increase by more than 25% from the previous year. They said much of their spending would be focused on new development, with 51% of all respondents planning to spend more than half of their budgets on new assets.

Jonathan Cawood, Capital Projects & Infrastructure (CP&I) Leader for PwC Africa, says:

“The shallow economic recovery in most developed markets has shifted the focus to faster-growing regions. This is also true for the infrastructure development sector. With an abundance of natural resources and recent mineral, oil and gas discoveries, demographic and political shifts and a more investor-friendly environment, the investor spotlight shines brightly on Africa.

While the recent shifts in oil price, currency and internal security challenges may impact in the short term, the fundamentals for growth haven't changed. Hence we believe the outlook for infrastructure development and economic growth remains positive. A peaceful transition to a new ruling party in the recent elections has injected further optimism and confidence.”

Respondents from West Africa were especially bullish, with 58% planning an increase of more than 25% in spending, followed by those in East Africa (53%) and Southern Africa (40%). Speaking on the report Ian Aruofor, PwC CP&I West Market leader noted that:

“West Africa is one of the most attractive destinations for investors in infrastructure. The region's growing population and its wealth of natural resources are the foundation for

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sustainable economic growth. It is clearly evident that sustaining West Africa’s impressive economic growth profile requires vast investment in enabling infrastructure. Improving governance, institutional reforms, trade, technology and an empowered workforce lend credibility to West Africa’s growth story.”

South Africa and Nigeria according to the report have the most ambitious infrastructure programmes and together make up almost 60% of the spend across sub-Saharan Africa. Kenya follows as the third largest in planned spend. As with most of sub-Saharan Africa, energy is a focal area for investments in West Africa, as the region remains in the grip of a prolonged power crisis.

While respondents were generally optimistic about infrastructural development in the region, they recognised numerous challenges in the execution of capital projects in the region which require urgent attention. Among these, availability of funding, political risk and government interference both with (59%) were seen as the main challenges to delivering projects. Consistent with the observations of survey respondents with operations in East Africa and Southern Africa, the regulatory and policy environment was also foremost on the list of challenges frequently encountered (37%).

“Resolving these identified challenges quickly and creatively will not only positively affect the outcome of current projects, but more importantly, will attract other project developers, owners and investors to enter the African market. It will also reduce the number of delays and the size of cost overruns, providing an example to other project owners and investors that African infrastructure can truly be developed efficiently and profitably.” says Aruofor

While all projects are susceptible to going off track and experiencing costly delays, some are more vulnerable, such as those involving new technologies, dependent on regulatory and environmental approvals and those in remote or politically unstable regions or where skills are in short supply. Nearly half (47%) of survey respondents said they experienced delays of more than six months on capital projects. Those in East Africa suffered the most delays of greater than six months, while those in Southern Africa said the largest number of delays were between one and six months. There are many examples in the world and indeed in Nigeria where projects have come in more than two years late and more than double original budget estimates.

Cawood concludes:

“Infrastructure plays a key role in economic growth and reducing poverty having a 5-25% per annum return on investment as an economic multiplier. Those countries that have been most successful in developing and maintaining infrastructure have established programmes of prioritised investment opportunities with a number of features, including clear political support, a proper legal and regulatory structure, a procurement framework that can be understood by both procurers and bidders, and credible project timetables. These country programmes eliminate key frictions such as long project lead times, clarity around funding and procurement strategies and to some extent reduce the risks of political term of office changes.

There appears to be a renewed enthusiasm among leaders and civil society on the continent to improve the situation. The success of the ambition to expand industrialization and regional trade to drive inclusive growth depends largely on infrastructure. This presents tremendous opportunities for businesses. With expectations, optimism and willingness among



stakeholders to embrace new ideas and partners at a high point, the investment climate is positive.”

Also presented at the media parley is the *Into Africa: The continent’s cities of opportunity* report which is a study of 20 African cities (including Lagos) judged to be among the most dynamic and focused on the future. The study which was based on the methodology, research, and analytical framework of PwC’s global Cities of Opportunity report - the seventh edition of which will be released next year, ranked the 20 cities on 29 variables grouped into Infrastructure, Human Capital, Economics, Society & Demographics.

The overall ranking of cities by the report placed the top 5 cities as Cairo, Tunis, Johannesburg, Casablanca and Algiers with Lagos placed seventh.

Speaking on the infrastructure component of the report Jonathan Cawood, Capital Projects and Infrastructure leader for PwC Africa comments:

“Looking at the report, you will notice a strong correlation between infrastructure, human capital, and economics. Cities that score well in infrastructure also score well in human capital and, unsurprisingly score well in economics – the link is clear between affordable and needs driven infrastructure and socio-economic prosperity and cohesion.

With city infrastructure under significant pressure, many of Africa’s cities cannot maintain their current levels of population and economic growth without enhancing their infrastructure. The demands for infrastructure vary from city to city based on stage of development, priorities and affordability. The basic needs for power, water and sanitation, transport and logistics, housing and ICT top the list for most. The wisdom of the choices Africa’s cities make in balancing political, social and economic agendas will become even more critical in managing finite financial and environmental resources.

Smart, creative, ambitious human beings will congregate and invest their labour and capital where it is most advantageous and livable for them to do so. Hence it’s not only about more infrastructure, but better infrastructure. Rethinking urban design that improves the way people work, live and play, integrating energy efficiency and renewable resources, leveraging technology and smart city thinking, promoting sustainability and the green agenda, smarter public transportation and supply chain solutions are all part of the recipe for Africa’s cities of opportunity.”

The report noted that African cities, in the unusually robust diversity and adaptability of their economic environment, both individually and as part of broader urban networks, offer extraordinary opportunities in the short, medium, and longer term, and for virtually any kind of economic enterprise. The consistent growth of its cities as a whole 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.

Cawood concludes:

“In the end, the developmental point is that urban advance is a matter of many (larger or smaller) steps over a long period of time. But the steps must be well coordinated, part of a long range vision and an integrated plan which is consistently implemented.



We believe that the analysis developed in *Cities of Opportunity* allows policymakers, civil society and business to develop a shared understanding of the baseline, the conditions for success and the collaboration necessary to deliver the potential of Africa's cities of Opportunity.”

Farouk Gumel, PwC Advisory West Market Leader stated that the firm had embarked on the projects to further differentiate itself in the market and become better positioned to meet the needs of the their clients in the future. Stressing on why clients should choose PwC he stated that:

“Our local team of highly-experienced professionals and our ability to leverage our global network of subject matter specialists, operating in the world's major markets, makes us your best suited partners as you navigate the continent's business landscape. Our customised solutions-oriented approach is tailored to company-specific situations allowing for a thorough approach in anticipating your needs and fulfilling them.

With the website and the brochure, we hope to better communicate our service offerings in the market and make it easier to engage with our clients at various touch points, hence enabling them find the value the value they are looking for”

END

Copies of the full reports presented at the parley are available for download as follows:

- ***Trends, Challenges and Future Outlook: Capital Projects & Infrastructure in East, South & West Africa*** - <http://www.pwc.com/ng/en/services/capital-projects-and-infrastructure/publications.jhtml>
- ***Into Africa: The continent cities of opportunity*** - <http://www.pwc.com/intoafrica>
- ***The new West Market Advisory website is available at*** <http://www.pwc.com/ng/en/services/advisory-services/index.jhtml>

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