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Addressing Africa's Infrastructure Challenges

Inadequate infrastructure remains a major obstacle towards Africa achieving its full economic growth potential. With Africa seen as one of the world's fastest growing economic hubs, meeting the demand for key infrastructure has been identified as a priority. This translates into exciting opportunities for global investors who need to look past the traditional Western view of Africa as a homogeneous block, and undertake the detailed research required to understand the nuances and unique opportunities of each region and each individual country

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Adequate Infrastructure-crucial to Africa's long-term growth

One of sub-Saharan Africa's top developmental challenges continues to be the shortage of physical infrastructure. Greater economic activity, enhanced efficiency and increased competitiveness are hampered by inadequate transport, communication, water and power infrastructure. The world is eager to do business with Africa, but finds it difficult to access African markets, especially in the interior, due to poor infrastructure.

Physical infrastructure covering transportation, power and communication through its backward and forward linkages facilitates growth; while social infrastructure including water supply, sanitation, sewage disposal, education and health, which are in the nature of primary services, has a direct impact on the quality of life.

Without this infrastructure, Africa will not achieve the growth levels expected or required. Infrastructure planning and investment are therefore critical if Africa's huge economic and developmental potential are to be realised. Key in helping the continent realise its economic potential, is the careful construction of a sustainable infrastructure that can assist to turn the situation around.

Africa's economic growth and development are intrinsically linked to infrastructure development, but it is the push-pull relationship with commodities that has become the driving force for infrastructure development in the region.

Large commodity finds, like oil and gas in East and South-East Africa, as well as the huge demand – particularly from Asia – for agricultural and natural resources, including minerals such as iron ore, platinum, coal and copper are driving the need for infrastructure. In turn, investment in infrastructure needed to extract and move these commodities to global markets (rail and port infrastructure) continue to drive Africa's economic growth.

The lack of infrastructure is a serious obstacle to growth and development, and results in a low level of intra-African trade and trade with other regions. The continent accounts for 12% of the world population but generates a mere 1% of global GDP and only 2% of world trade. Despite this, six of the world's ten most rapidly expanding economies are now located in sub-Saharan Africa. This gives even more reason for speedy infrastructure transformation.

Rapid population growth also places enormous challenges on existing, and often obsolete and poorly maintained infrastructure and resources. In many African countries, infrastructure limitations, notably in power and logistics, inhibit productivity at least as much as other institutional challenges, such as weak governance, onerous regulation and lack of access to finance.

Studies, such as that by the Infrastructure Consortium of Africa (ICA), have shown that poor road, rail and harbour infrastructure adds 30-40% to the costs of goods traded among African countries.

A recent World Bank study on infrastructure also highlighted challenges in this regard for continental economic development. It found that the poor state of infrastructure in sub-Saharan Africa, that is electricity, water, roads and information and communications technology (ICT), reduced national economic growth by two percentage points every year and cut business productivity by as much as 40%.

It is estimated that about US$93-billion is needed annually over the next decade to overhaul sub-Saharan African infrastructure. About two-thirds or $60-billion of that is needed for entirely new infrastructure and $30-billion for the maintenance of existing infrastructure. Only about $25-billion annually is being spent on capital expenditure, leaving a substantial shortfall that has to be financed.

Backlogs-an opportunity

While inadequate infrastructure may be the single biggest threat to Africa's long-term growth, at the same time it also (at the same time) represents a significant opportunity for investors to finance physical infrastructure assets such as ports, railway lines, toll roads, power stations, hospitals and broadband ICT. With governments across the continent committing billions of dollars to infrastructure, Africa is at the start of a 20 to 30-year infrastructure development boom. There are, however, certain preconditions that private investors typically require before committing themselves to projects with the lengthy payback periods that attach to infrastructure assets. For example, they want to be involved in projects that are high priority for governments and thus are likely to come to a conclusion. They do not want to be involved in projects where there are no clear implementation timelines or where the timelines, are repeatedly moved out. They will also focus on markets where there is a guarantee of long-term policy stability and revenue certainty and where there is institutional capacity within government to make projects happen.

On the positive side, in recent years much of Africa has experienced heightened political stability, improved governance and transparency and become increasingly open to regional and global integration. This has attracted global investors seeking growth opportunities beyond the depressed Western markets of Europe and North America.

Funding

Funding remains a key challenge. African governments have historically financed a sizeable share of the continent's infrastructure development on balance-sheet, and infrastructure rollout has thus been constrained by budgetary restrictions. Furthermore, local banks are often not able to supply the tenor of loans needed for long term infrastructure investment. For the continent's infrastructure backlogs to be cleared, some form of collaboration with private sector players is a necessary and important precondition.

There is also a strong need to diversify the available sources of funding by developing domestic and regional capital and debt capital markets and boosting public-private partnerships (PPPs). These markets are generally not well developed in Africa, outside of South Africa, although that is slowly changing. Countries like Nigeria, Kenya and Ghana have recently seen substantial growth in their capital markets.

Public-Private Partnerships (PPP)

Governments and public authorities are increasingly turning to PPPs to deliver efficient and cost-effective infrastructure and services. PPPs can help public sector entities shorten delivery times, share risks, achieve better value for their money and increase innovation in their infrastructure rollout and provision of services. Such partnerships allow private sector organisations to apply their skills and experience to infrastructure development and operation and mobilise finances for long-term infrastructure investments.

Despite their potential, however, PPPs are highly complex policy instruments and must be fully understood and professionally implemented and managed if they are to deliver on their potential. Above all, the political will to make decisions quickly and transparently is crucial to optimising the benefits that this process can bring. The infrastructure gap – the amount of investment required to meet core infrastructure needs – is large and growing. On average, developing countries need to spend 5% of their gross domestic product (GDP) annually on infrastructure capital expenditures in order to sustain and expand essential public infrastructure. This constant challenge requires bold approaches and practical solutions, such as PPPs.

Deloitte involvement in infrastructure development

It is through this model of co-operation between the public and private sectors that Deloitte seeks to further cement its involvement in infrastructure development on the continent. Deloitte has a strong presence in Africa and sees the speedy economic development of the continent as paramount. With a staff compliment of more than 5000 people, it has over a century's experience on the continent. Of specific relevance is the sub-Saharan Africa infrastructure advisory team, based out of Johannesburg, Nairobi, Dar es Salaam, Accra and Lagos, and comprising of specialists in the areas of economics, financial modelling, project finance, PPPs, legal, tax, procurement and fundraising.
It is this wealth of knowledge and expertise that Deloitte utilises in contributing towards the continent's economic renaissance. We are focussed on creating partnerships and providing a wide range of solutions that will support Africa's infrastructure transformation and industrial growth.

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