

Investors look to Africa for new opportunities



Infrastructure development remains the launch pad Africa needs to kickstart the economic transformation it desperately needs. And these are opportunities for foreign investors.

Over decades, several reports and research findings have confirmed that Africa could embark on irreversible economic prosperity if only the continent could plug its yawning infrastructures gaps.

The infrastructure challenges in Africa are easily noticeable at airports, major roads, harbours, railways and telecommunication, energy and other basic social infrastructure taken for granted in developed countries. In a twist of fate, most of these infrastructure challenges in deregulated economies in Africa are now metamorphosing into profitable business opportunities for both foreign and local investors.

Rules of engagement

As many African countries implement market-based reforms targeted at attracting foreign investment, the demand for a transparent and consistent set of rules for all players is getting stronger. In the past, some African countries decreed and changed regulatory policies to suit personal and political interest instead of the overall wellbeing of the economy. Today, the African Union, through agencies such as [Africa Forum for Utility Regulators \(AFUR\)](#), are encouraging broader and predictable regulatory regime across key infrastructure sectors in Africa.

Some countries, such as Nigeria, applied consistent regulatory regime in their telecommunication sector and encouraged exponential foreign direct investment flow, which resulted in astronomical growth in the sector. Despite the positive developments, there are still great concerns in some African countries that still apply retrogressive tactics of changing the rules in the middle of the game. New entrants into Africa infrastructure sector should investigate the history of the regulating body and consult independent experts in the country of interest before they pitch their tent. It could make the difference between business success and failure.

Public Private Partnership

In some African countries, Public Private Partnership has been a huge success. PPP has delivered key infrastructure projects such as airports, power generating plants and major highways. The PPP model has encouraged more foreign investors to invest their capital knowing that a change of Government will not necessarily undermine their investment, considering the shared interest with the State. In some countries, the Government has gone further and introduced the principle of using what they have to get what they need. The countries in this category offer [investors](#) access to natural resources in return for development of infrastructure projects.

Notwithstanding the mutual benefits therein, some experts still argue that swapping resources for infrastructure PPP models could easily degenerate into exploitation and re-colonisation. Nevertheless, considering the yawning infrastructure gaps in Africa, all efforts to develop infrastructure projects there should be cautiously examined and encouraged.

ICT & Telecoms

The success story of telecommunications in Africa is mostly driven by large-scale private investments. According to the [Public Private Infrastructure Advisory Facility \(PPIAF\)](#), the Sub Saharan Africa ICT sector has attracted more than \$60 billion in investment, which translates to 97 projects in 37 countries.

To make return on investment quicker, telecom investors in Africa introduced user-friendly pre-paid services, which generated millions of subscribers across the continent. McKinsey Institute, in its 2010 report, suggested that telecom regulators and African governments could further drive the growth of the sector by making lower spectrum bands available, encourage infrastructure sharing, provide rollout incentives and potentially reduce rural telephony license fees.

There are opportunities in several African countries in areas such as SIM card accreditation (software and hardware providers); repair and maintenance of telecommunications facilities; power management systems; capacity-building training and alternative energy for cellular sites/services (solar, wind, etc.) among others.

Oil and Gas

By 2015, 13 percent of global oil production will take place in Africa, compared with nine percent in 1995; a five percent compound annual growth rate (CAGR). Based on McKinsey's report, African oil projects have attracted substantial investment thanks to their cost competitiveness versus those in other regions. However, new kinds of competitors have entered and grown in Africa's oil and gas sector.

Smaller independent oil companies (such as Addax, Heritage Oil and Tullow Oil) have made successful finds in emerging basins. National oil companies from outside Africa, including China (CNPC, CNOOC, Sinopec), Malaysia (Petronas), and Russia (Gazprom) have also aggressively invested in the continent, linking broader infrastructure investments and government-to-government relationships with access to resources.

The challenge for these competitors in the years ahead will be to build sustainable enterprises and local capabilities beyond the scope of an individual project or investment. There are business opportunities in petroleum engineering services, upstream, midstream, downstream and ancillary projects, greenfield projects, multilateral and bilateral financing, co-funding of studies and research projects, strategic stocking facilities and joint-ownership participation in oil projects among others.

Power

To date, there have been some 45 independent power projects (IPPs) across 17 African countries. These power projects amount to investments in the neighbourhood of \$10 billion, and producing about 12,000 megawatts of energy, according to data from South Africa's Graduate School of Business. "Three-quarters of installed IPP capacity and about 70 percent of all IPP investment" are concentrated in Egypt, Tunisia, Morocco, Côte d'Ivoire, Ghana, Kenya, Tanzania and Nigeria.

A professor at the University of Cape Town's Graduate School of Business, Professor Anton Eberhard, pointed out a remarkably low IPP failure rate in Africa. The research also revealed that African IPPs earn their investors considerably higher rates of return than in other parts of the developing world (about 25 percent compared with 15 percent returns across Latin America and 12 percent for Eastern European IPPs). Africa's power sector offers significant opportunities in power sector financing: construction of natural gas transmission and distribution networks, storage facilities, capacity-building training and greenfield projects in gas, wind farm, solar and coal-fired power generation among others.

Transport and Construction

According to a recent report on Africa published in *Infrastructure Investor* magazine, African roads, especially regional trade links, are becoming bankable targets for private sector capital. In November 2010, French infrastructure group Eiffage announced that it had closed a 30-year contract to build, finance, maintain and operate a 25-kilometre Greenfield road in Senegal.

On the seafront, opportunities for private sector investments in ports are set to increase steadily, as the continent's ports are nearing capacity with governments increasingly turning to the private sector to help remedy the capacity gap. In October 2010, the East African Community (EAC) said in a report that the ports of Mombasa, in Kenya, and Dar Salaam, in Tanzania, are fast approaching their capacity limits. The long-term solution, the report highlighted, would be to upgrade capacity for those ports while developing new ports in both countries. The inland water transport also presents growing opportunities in countries such as Nigeria, considering its recent dredging of the River Niger and ongoing work on the River Benue that will link up the Northern part of the country.

Africa has witnessed a fair number of rail concessions, but the promise many hold is contingent on the ability to overcome inherent [challenges](#).

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