AFRICA'S SLEEPING GIANTS

Dormant Infrastructure Projects Need Rousing

BY KERRY DIMMER

With Africa enjoying higher levels of investor confidence and some rapidly growing economies, a puzzling picture emerges: investment into infrastructure development appears to have slowed during 2016 by as much 14 percent, according to consultant Deloitte in its report *Africa Construction Trends.*

J-P Labuschagne, Deloitte Africa's Infrastructure and Capital Projects leader, and author of the report, explained that the drop from 301 to 286 infrastructure projects with a value of more than US$50 million can be attributed to several factors: repricing of economies, fluctuating exchange rates, and lower commodity prices, all of which

directly impact on government revenue and therefore its ability to spend on large projects.

"It is lower commodity prices that appears to have the most impact, easily indicated by the suspension of three large iron ore mines, two ports and an oil refinery. But there is a wider consequence in that construction and operations jobs are delayed and private sector confidence affected," Labuschagne said.

Aside from limiting project cargo potential, these are also important considerations because in pretty much all instances, infrastructure in Africa is motivated by the need to alleviate poverty; improve quality of life of all citizens; cope with rising urbanization and a growing middle class; and facilitate intra-regional and global trade, and the movement of people/goods.

History shows that the private sector has largely been responsible for delivering infrastructure in Africa. Mining and oil and gas sectors, for example, have funded their own investments, which has brought the added benefit of creating peripheral project infrastructure, such as link roads, and water, energy and health supplies for communities.

Today, that scenario has changed somewhat. Governments are now looking to partner with the private sector, but as Labuschagne points out: "There is often a fair degree of mistrust between the two sectors and the legal mechanisms or structures required to fund and build infrastructure in terms of earning a return or recovery of investment, can be difficult to put in place."

What also must be factored in is that US$93 billion per annum is required to meet Africa's current infrastructure needs, and according to the World Bank and the African Development Bank, the financing gap is some US$31 billion.

There are alternative financing opportunities, such as funds from donors, development finance institutions, or DFIs, and private equity firms. But ultimately, advises Labuschagne: "Governments need to be clear on their strategic plan, their role and willingness to engage with the private sector. This willingness must also be tempered with a realistic view of what drives investment decisions by the private sector."

A construction train operating at a section of the Mombasa-Nairobi Standard Gauge Railway near Tsavo East National Park in Voi, Kenya. The railway's prime contractor is the China Road and Bridge Corp. (CRBC).

Credit: Daniel Irungu/EPA/Newscom

POCKETS OF GROWTH

So, who is funding the continent's infrastructure projects? Labuschagne said that the split is governments, 28 percent; private domestic/local funders, 14 percent; international DFIs, 13 percent; Chinese investment, 12 percent; and African DFIs, 10 percent.

"Government is by far the majority owner/developer at 73 percent, and while this is likely to continue, what is often frustrating for private sector investors is the slow turnaround time by most governments in taking a project from concept to feasibility, procurement and construction," he said.

It's not all doom and gloom though for those keen to pick up project cargo business in Africa, as Paul Runge, points out. Runge is a director at Africa House, a 30-year old company that undertakes ongoing African research and provides intelligence on green- and brownfield projects, identifies markets and partners, develops export strategies and commercial feasibilities. He says that it's difficult to regard the continent in terms of a decline in infrastructure foreign direct investment, or FDI, because there are pockets of good growth, West Africa being one such region. According to the Deloitte report, West Africa shows the highest number of projects at 92, with the most value at US$120 billion.

Runge, however, highlights East Africa, for despite a drop in its number of infrastructure projects from 61 in 2015 to 43 in 2016, those that are to harness the oil and gas discoveries in the region are just beginning to gain momentum.

"From my own analysis, 2017 is going to be a very interesting year, largely because there are going to be many final infrastructure investment decisions, actions and commitments taken, particularly regarding oil and gas projects. This will spill over into 2018 as well," he said.

One such project is the continued development of the Ruvuma Basin in southern Tanzania and northern Mozambique. "There is also somewhat of a boom going on in Kenya despite an economic downturn. Why Kenya is particularly notable," said Runge "is that it is defined by a number of hotel, mixed retail developments and industrial park projects that are also being planned, which in turn motivates for a number of sub-group infrastructure developments such as renewable energy, the growth of private health care and the agri-industry."

Another significant development to consider is the LAPSSET corridor project – the link between Kenya's Lamu Port, South Sudan and Ethiopia, which won the 2016 Global Infrastructure Leadership Project Award. As Africa's largest and most ambitious infrastructure project, it has several component key infrastructure projects including a 32-berth port, interregional highways, crude oil pipelines, railway lines, international airports, resort cities and a multipurpose dam. The intended upgrades to Port Lamu will enable the handling of much bigger cargo that will challenge neighboring port Mombasa despite its own recent upgrades.

SHRINKING VOLUMES

However, Lars Greiner, managing director of Greiner Mendi, a specialist logistics company, comments that regardless of the size or significance of infrastructure projects, the breakbulk environment in Africa is shrinking.

"It's close to insignificant and is viewed by authorities as a necessary evil rather than an industry," Greiner said. "Conversely the more 'sexy' container industry, given its high-volume/low-risk dynamic, is more attractive. Evidence shows that in the more developed South Africa, breakbulk accounts for less than 10 percent of total volumes exported, with the number of breakbulk berths having reduced from 50-odd some years ago, to around 15 currently."

Continentally, there is also a lack of focus on multimodalism and connectivity between areas where breakbulk cargo is required. "Countries tend to take a short-term view on financing and returns and therein lies the weakness," continued Greiner. "They are not going to build breakbulk infrastructure now for use in 10 years when, for example, the pipe industry takes off because there is no current income that can be generated. However, it is in times like these, when commodity prices are low, that Africa should be spending time building roads and ports."

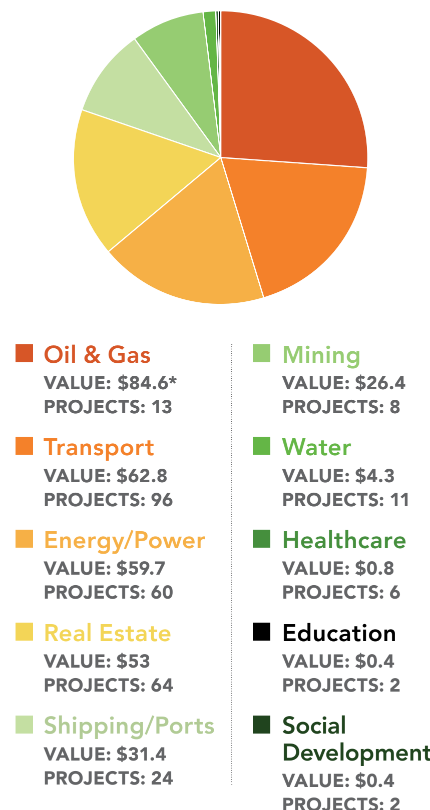
WHO OWNS VS WHO FUNDS

African governments are the largest owner of African infrastructure projects.

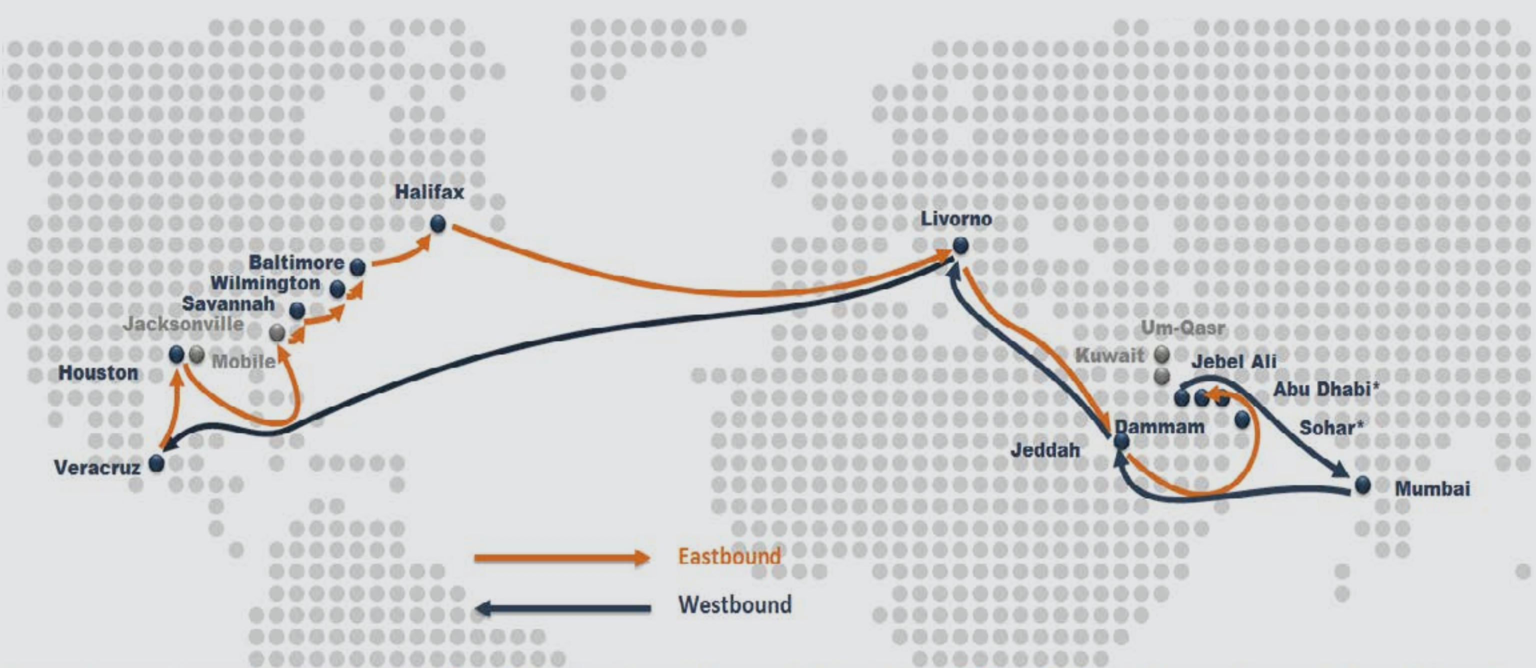
	OWNS	FUNDS
Government	73.1%	28.3%
Private Domestic	11.5%	14.0%
UK	2.1%	2.8%
South Africa	1.7%	2.8%
US	1.7%	2.4%
China	1.4%	12.6%
France	1.4%	2.4%
Nigeria	1.0%	1.4%
UAE	1.0%	N/A
Other	4.9%	7.0%
International DFIs	N/A	13.6%
African DFIs	N/A	9.8%
Brazil	N/A	1.4%
Nigeria	N/A	1.4%
Switzerland	N/A	1.4%

PROJECT VALUE BY SECTOR

Oil and gas projects ranked No. 1 in value in 2016. Transport ranked first for number of projects.



*US$ billion / Source: Deloitte analysis, 2016



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A large percentage of Greiner's work is related to solving the challenges of how to land breakbulk, for which he feels solutions can always be found. "We can get breakbulk anywhere, plans can be made and executed. But for investors the obvious applies: what is the cost versus return?"

That return on investment is getting smaller, Greiner said: "Only 10-15 business can currently breakbulk a project in full, and that's down by about 50 percent from a generation ago. It's difficult, it's not rewarding, it's a fight, so the long and short of it is that yes, it has to be done but contractors aren't committed to paying

« Jeffrey's Bay Wind Farm, on the Eastern Cape of South Africa. Renewable energy may provide a bright spot of opportunity for the breakbulk and project cargo industry in Africa.

Credit: Nic Bothma/EPA/Newscom

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for the necessary skills and overcoming transport challenges so many projects are put on hold."

Yet, Africa House's Duncan Bonnett countered: "Even where actual capital projects have been put on hold, a lot of ancillary development is taking place to enable project promoters to develop their resources quickly when the time is right.

"It's obviously very difficult to predict when this will happen, and there has been a significant amount of disruption in the logistics sector as a result."

GROWTH PATH

Such disruption does not, however, signal that logistics does not have a growth path on the continent. Like Greiner, Bonnett also believes that East Africa's oil and gas infrastructure is going to be dominant in forthcoming years.

"There are so many projects that could potentially come on stream this or next year, especially in Uganda, Kenya, Ethiopia – but this is based on the assumption that projects get the green light," Bonnett said.

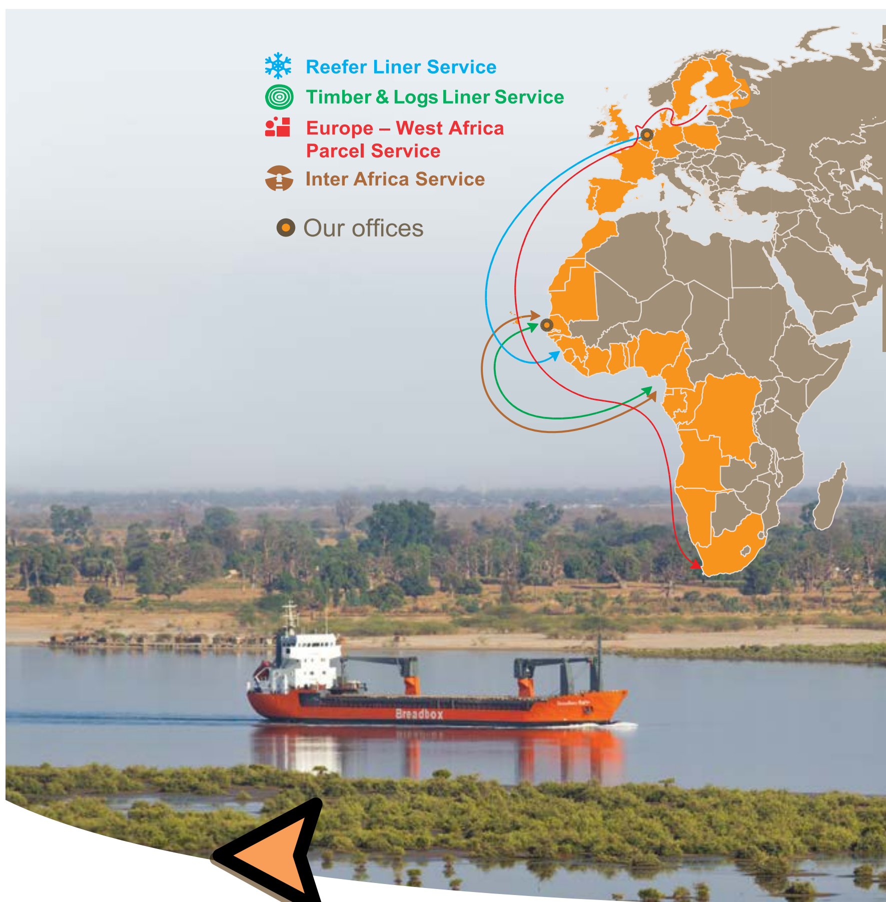
"There are also a number of gas pipelines at various stages of development in sub-Saharan Africa that would run for several thousands of kilometers. Allied to this is the proposed establishment of downstream gas-fired power plants and downstream petrochemicals developments associated with such gas projects," he said.

There are increasing opportunities in a number of areas that the breakbulk and project cargo industry can focus on in the interim. Bonnett sees power and renewable energy in particular as opportunities: "This includes areas such as solar and wind, with the particular challenges of those technologies, and traditional coal-fired and hydro plants.

"I think we'll also see – depending on developments in the U.S. and China in particular – an uptick in mining projects that could spur infrastructure development, as well as motivating major logistics requirements around these. Rail is also currently receiving a lot of attention, but it is a difficult sector to motivate in an uncertain environment. Mozambique is a case in point: the collapse in coal prices led to a sharp drop in investment in pit-to-port infrastructure development from Tete to the coast."

That said, while a lot of capital projects have been parked or scaled back, existing operators and near-operators are still looking for ways to cut operating costs, so companies that can offer innovative solutions to projects will be very welcome, concluded Bonnett. BB

Kerry Dimmer is an award-winning freelance journalist, focused on African business affairs.



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