

Africa Infrastructure Insights

September 2018

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Introduction

The greatest obstacle to growth and potential market entry in Africa is the lack of infrastructure development. The major hubs of trade in East and West Africa, Kenya and Nigeria, are key to the successful development of the region. Future infrastructure development in Kenya and Nigeria may be a key determining factor in any company's expansion strategy in the continent, seeking to choose between the lucrative markets of East and West Africa.

With regard to infrastructure spending in the continent, countries such as South Africa, Kenya, Nigeria, Ghana, and Mozambique are making significant investments. In Kenya, Nigeria, and Ghana, massive amounts are allocated to the development of transport infrastructure, specifically rail, with Ghana estimated to have ongoing and planned rail project investments of just over \$70 billion. Rail development in the continent will be crucial to overcome logistical delays and congestion in major urban areas. Globally, rail development has slowed. However, in Africa, it will be essential for the sustainable growth of manufacturing, agricultural, and extractive industries.

Severe energy shortages in many countries have also ensured significant investment into electricity production. The massive \$80 billion, 40,000 MW Grand Inga hydropower project in the Democratic Republic of the Congo (DRC) will be a major accomplishment and provide the much-needed electricity for Southern Africa, if fully developed. Such projects are not without potential issues, and very slow progress has been made towards initiating them. Lack of political stability in the DRC, coupled with difficulties in obtaining public-private financing on a large scale with multiple partners, will pose a challenge.

Much of the infrastructure spending growth will not only be driven by internal demand in Africa, but rely on extractive industries, especially mining and oil and gas. Oil prices being currently low, there will be delays in many oil and gas development projects. However, as prices stabilise, demand from India and China will cause Mozambique to grow at a furious pace post 2020.

It is estimated that a \$90 billion infrastructure investment is needed annually through 2025 to alleviate the current infrastructure deficit in Africa. This means that there is significant potential for new private investment, as many African countries are seeking new means of project funding.

Airport Infrastructure

One of the major obstacles to growth in Africa is the relative lack of intra-regional trade. However, the problem runs deeper, as conducting business operations in Africa is also expensive. One of the factors attributing to the lack of connectivity in the continent is the inadequate aviation infrastructure. Air travel is extremely expensive in Africa, and there are significant delays at airports.

However, the issue has received attention, and currently, \$39 billion has been allocated to the development of new airport infrastructures in the continent. Africa's investment into airport infrastructure for ongoing and planned projects accounts for 8.5% of the global total. This is a

significant proportion of infrastructure spending, considering that Sub-Saharan Africa only contributes about 2.2% of the global gross domestic product (GDP).

Kenya Infrastructure Overview

To sustain Kenya's high GDP growth, significant infrastructure development is needed for alleviating the trade, energy, and communication bottlenecks that could hinder growth. Kenya is a major hub for trade in the East African region, with the Mombasa and proposed Lamu ports providing access to neighbouring countries such as Ethiopia, Sudan, Uganda, and Rwanda. Kenya has the potential to act not only as the logistical hub for East Africa, but also as the technological hub, with significant information and communications technology (ICT) infrastructure development in Nairobi. Key to Kenya's development is investment in energy, transport, and technology infrastructures.

Currently, planned and ongoing projects in Kenya for power generation account for 26% of the total infrastructure spending. Telecommunications infrastructure records a 25% share. Additionally, development of rail infrastructure accounts for a significant proportion at 18%.

Nigeria Infrastructure Overview

Nigeria is the largest economy in the continent with strong consumer demand potential. However, for sustaining its high levels of growth and diversifying its economy away from dependence on oil and gas, significant infrastructure spending is needed to address the two major growth bottlenecks facing the country—energy and transport. Any discussion on Nigeria must consider the power supply challenges it faces at the moment, especially as the government is trying to increase the contribution of manufacturing to GDP. Presently in Nigeria, electricity accounts for 40% of a manufacturer's production costs, as against lower than 10% in developed countries.

Almost half the population is off-the-grid, and intense recurrent power outages impede the economy. Gas pipeline vandalism is also a major reason behind Nigeria's power woes. Currently, ongoing and planned power infrastructure projects account for 22% of the country's total infrastructure spending. Investment in oil and gas remains the largest contributor, with a 36% share of the total ongoing and planned expenditure.

Kenya Transport Infrastructure

In recent years, Kenya has experienced a significant increase in transport infrastructure spending. The country has been facing challenges stemming from high transport costs for a number of years due to degraded and non-existent infrastructure. Recently, however, it has seen the implementation of mega transport infrastructure projects.

A planned improvement of the transport infrastructure will help reduce costs of trade for companies and increase Kenya's attractiveness as East Africa's trade and investment hub. For road infrastructure projects alone, the total investment for ongoing and planned projects is estimated at about \$5.14 billion. This will go into upgrading existing highways and developing

new highways, in both Mombasa and Nairobi and across the major trade routes from Mombasa and Nairobi to the west and the north.

The new port at Lamu, which is part of the Lamu-South Sudan-Ethiopia Transport (corridor), should help ease the pressure on the Mombasa port, the only port handling international cargo earlier. Apart from the port at Lamu, the LAPPSET corridor encompasses a railway line, highways, an oil pipeline, and a fibre optic line; and this mega project is likely to enhance Kenya's positioning as a trade and investment hub, helping spur its economic growth.

Whilst new port development spending is estimated at \$5.21 billion, the greatest investment is recorded in rail infrastructure, encompassing the LAPSET corridor programme as well as the Nairobi Commuter Service and the Standard Gauge Railway between Mombasa and Nairobi.

The SGR under development was awarded to the China Road and Bridge Corporation. Construction is underway on the Mombasa-Nairobi line, with completion expected within 42 months. The first phase route will run from Mombasa Port to Nairobi's inland container depot, with passenger stations at Mombasa, Mariakani, Voi, Mtito Andei, Sultan Hamud, Athi River, and Nairobi (Embakasi). The project will require one-third of the budget to be spent on 56 diesel locomotives; 1,620 wagons; and 40 coaches.

The 2013 Public Private Partnerships Act encourages private sector participation in the financing, construction, and operation of infrastructure projects. As the Kenyan infrastructure development scenario is currently booming, it is the right time for local and foreign investors to participate in some of the country's mega projects.

Nigeria Transport Infrastructure

Major road construction in Nigeria has been hindered on a large scale due to lack of adequate support from the government in terms of funding, security, and technical expertise. Inefficient modes of transportation have induced heavy pressure on the road sector, preventing further rehabilitation and expansion of the existing road projects. Over decades, railway sector development has remained stagnant owing to negligence from the Federal Government as well as management issues concerning the Nigerian Railway Corporation (NRC). A 25-year Railway Strategic Plan has been introduced by the government to modernise the obsolete railway infrastructure and ensure the completion of all existing and ongoing railway projects in the country. To strengthen the economy, the Nigerian government has initiated the development of new deep sea ports that are expected to further transform the country into a major hub for trade and business in West Africa. The Federal Government is also engaging in the development of new terminals at the country's existing airports to facilitate the efficient handling of incremental passenger and freight traffic by incorporating huge investments through private sector participation.

With a constant effort to modernise the railway sector in Nigeria, the Nigerian Railway Corporation (NRC) has accelerated many new projects by attracting private investments. Major ongoing and planned rail projects include the Lagos-Kano rail modernisation project, Standard Gauge, Rail Mass Transit System, Monorail System, Coastal Rail Line, and upgrade and rehabilitation of the current rail network.

Significance of the development of the railway sector lies in reduction of the heavy trucking pressure on Nigeria's road network. It will also provide an efficient and cost-effective mode of transportation for the movement of passengers and large volumes of goods in different parts of the country.

Infrastructure development is not without challenges. Insurgency is a major threat affecting the implementation of various infrastructure projects in the country. Most of the contractors have abandoned their projects owing to loss of life due to frequent militant attacks.

Key Takeaways

Industries that will benefit greatly from new infrastructure investment are automotive, logistics, services, agriculture, agri-processing, and manufacturing. Urbanisation and road development will alleviate traffic congestion and drive the demand for automotive sales, especially in Nigeria and Kenya. Logistics services will also benefit from a more efficient infrastructure to deliver goods into landlocked countries. Many operational models will change in the future, as current road transport will be substituted with more efficient rail operations for goods, especially in East Africa.

Rail network development in East Africa will be a major advantage to facilitate trade growth within the region, whereas West African countries will lag behind in this regard. Changes in investment models into infrastructure in Kenya, for instance, require more local participation. However, this trend is most likely to spread to other countries in the future.

Local Kenyan contractors have been facing increased foreign competition for infrastructure work in recent years; and in 2014, the National Construction Authority Regulations were adopted to ensure the protection of the local industry and enable local firms and players to reap maximum spill-over benefits from the country's construction boom. The regulations call for greater collaboration between foreign and local contractors.

If foreign firms are to take up construction work, they have to undertake in writing that they will either enter into a joint venture with a local firm or locally subcontract at least 30% of the value of the contract. Foreign firms also have to engage in technical skills transfer as determined by the National Construction Authority if the skills are not locally available.

In certain industries, the local content policy has also been pushed. An example is the automotive industry, where local vehicle assembly has seen a major jump in Kenya recently. This has been supported by import duty exemptions for manufacturers when importing complete knock-down kits, as opposed to a 25% duty for a fully built up vehicle. The number of assembled vehicles grew from about 4,000 units in 2009 to just over 9,000 units in 2014. Companies such as Toyota established assembly operations in 2014. The exemption of import duties allows manufacturers to produce cheaper vehicles. These could help crowd out second hand imports that have flooded the market. The government is also considering raising import duties on second hand imports. Apart from tax exemption, the Kenyan automotive market is made lucrative by strong demand side growth, with new car sales increasing by 18% in 2014 (fuelled by a growing demand from the middle class).

In Nigeria, The National Automotive Industry Development Plan was launched in 2014 when there was complete dependence on imported vehicles in the country. In 2012, it imported

almost \$3.5 billion worth of automobiles, and almost two-thirds of these vehicles were pre-owned. As per the tariff structure for the first phase of the Plan from 2014 to 2019, fully built up cars are charged a tariff of 70% and fully built up commercial vehicles a tariff of 35%.

There was no automotive policy previously in the industry; and before the launch of the National Automotive Industry Development Plan in 2014, there were only 15 assembly plants, of which only 3 were functioning. In 2014 itself, 18 new assembly plants were established. In 2015, licenses for 12 more plants were awarded to companies such as Toyota and Honda.

For growth to remain sustainable in Sub-Saharan Africa and for the economies to diversify, infrastructure development is necessary. Kenya is showing promise in terms of building infrastructures that will ensure connectivity with its regional neighbours. Energy infrastructure development in Kenya is also not hindered by as many challenges as in Nigeria; and it is most likely that energy infrastructure development in Kenya will surpass that of Nigeria, considering possible delays in the latter case.

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