Business

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a developed approach

Alignment of interests and a lack of good quality projects are major hurdles to developing projects in Africa, but as *Africa investor* discovers, the right players with the right approach can change the landscape

Infrastructure is widely seen as the key driver for Africa's future economic growth, but in order to accelerate the development of infrastructure itself, it is vital that infrastructure projects be undertaken by qualified and professional project developers.

In terms of evaluating a project, says Andrew Alli, CEO of the Africa Finance Corporation (AFC), "It's been proven time and again that the most important [criterion] is the management."

A project developer can largely be defined as the company, or companies, that manage the development and operations of a project. A coordinated approach is required for a project to be successfully developed and structured, with a primary function of the project management team being to monitor and manage the project to ensure that cost, time and quality parameters are maintained.

Savannah Maziya, Group CEO of Bunengi Group, a specialist industrial investment and pan-African infrastructure company, explains; "As an African institution, our approach is to lead and deploy our investment capacity in projects and bring our technical and investment partners along to tie up bankable off-takes and build domestic capacity for local content partnerships, especially on major infrastructure projects determining Africa's long-term trade competitiveness."

Project developers need to certify that the projects in which they have invested in developing are effectively secured and have a deep interest in the development of the continent, as well as favourable returns for all stakeholders. However, this is often not easy as there are many powerful players who have vested interest.

"There are thankfully many investors who are looking to collaborate and have an investment in Africa's positive development, but alignment of interests is a major hurdle to developing projects in Africa due to the lack of good quality projects," Maziya says.

Alli, too, laments the lack of bankable projects on the continent. "AFC has what we call a project development unit," he says. "[It] takes projects and ideas and helps them to work through the process and become bankable."

He explains further that project development is missing in Africa, and is not done on a large scale by the private sector. Those African project developers that do operate on the continent also find themselves obliged to compete with more established international players.

AFRICAN VERSUS INTERNATIONAL

In terms of these players, Ato Gyasi of RMB's Investment Banking Infrastructure Finance West Africa arm says, "In my view, it is important to recognise that there are two sets of groupings of sponsors in Africa, the well-established sponsors who tend to have their roots in the western world; and a second group of 'new' sponsors who tend to either have their roots in Africa or Asia."

More often than not, he says, one tends to see the first grouping as the preferred sponsors because they tend to have the experience and track record of developing successful projects (which means they understand the process involved) and better access to capital.

The second grouping tends to have a limited track record but has recognised the importance of the 'process' so overcome this limitation by appointing seasoned advisors to guide them through the process. This is perhaps easier for those from Asia as they tend to have access to capital whilst those originating from Africa tend to have more limited access to capital.

One key advantage, however, that project developers from Africa have over the more well-established sponsors, and, to a more limited extent, those from Asia, Gyasi says, is their understanding of local dynamics, which cannot be over-stated. One other key difference between the two major groupings is that the first grouping tends to cover various countries across the continent whereas the second grouping tends to limit its activities to a single country.

Where the local players could come in, says Gad Cohen, Partner at EleQtra, manager for InfraCo, is in teaming up with international partners and acting as the 'local arm' of the deal. The constraint they face, he says, is that early stage project development remains a risky business, requiring a fair amount of resources, depth and capacity, which they may not have. However, "the good ones bring local knowledge and facilitate the interface with the government, which is a very important element of these transactions, given the significant reliance on government support," Cohen says.

In an African context, says Geoffrey White, Director and CEO of Lonrho, "a lot of these risks can be effectively managed by developers who have the experience and understand the nature of Africa and take the time to build a mutual understanding, trust and respect with the communities and environment that they operate."

"Ultimately, in my view," says Gyasi, "the best approach on each project is a partnership across the two groupings."

AFRICAN DEVELOPERS TO WATCH

1. Bunengi Group
2. Africa Finance Corporation (AFC)
3. Africa investor (Ai) Capital
4. Copperbelt Energy Corporation
5. Dangote Group
6. Harith
7. Notore
8. Transnet
9. Citadel Capital
10. Transcentury
11. MJ Group
12. Asset & Resource Management Company Limited
13. Sevan Energy

INTERNATIONAL DEVELOPERS TO WATCH

1. Commonwealth Development Corporation (CDC)
2. GE Africa
3. Maquarie (Africa Infrastructure Investment Managers (AIIM)
4. Industrial Promotion Services (Aga Khan Fund)
5. InfraCo Holdings
6. Sithe Global Power
7. AES
8. Globeleq
9. Suez
10. Alstom
11. SNC Lavalin
12. TAQA
13. TATA

Hubert Danso, CEO, Africa investor Group agrees, commenting that Africa investor (Ai) Capital, the project development and investment arm of Africa investor Group, brings a unique package of domestic and international resources to support African governments developing major infrastructure projects, through a turnkey approach, access to global infrastructure capital and proven world class operating partners in the transport, energy, telecommunications and social infrastructure sectors, all of whom are committed to equitable skills and knowledge transfer for projects in Africa.

WHAT IS NECESSARY FOR AFRICAN DEVELOPERS?

Maziya suggests that governments should crowd in funders as infrastructure projects are long-term in nature and need multiple parties to commit.

"Speed is of the essence. When entering a market, ensuring there are multiple programme opportunities in a country to ensure economies of scale is an important consideration for Bunengi when developing projects in the transport, energy and mining sectors," she says.

Stakeholders must appreciate that infrastructure investment is a very competitive landscape and investors work within tight frameworks and timeframes, says Maziya. What makes a project attractive for investors is that it can be procured and bid for within the phase of their infrastructure investment funds; that is, the fund's lifespan which, on average, is around ten years. Africa's current bidding and procurement process takes up to and in excess of four years, which means these funds cannot invest and exit within the cycle of the fund.

"With only a few notable exceptions," says Helen Tarnoy, Executive Director of Aldwych International, "governments and utilities are still not managing to drive successful processes to bring about private investment. In most countries, there are no meaningful efforts being made in this direction and there are also no processes or administrative capacity in place to effectively handle and bring to resolution unsolicited proposals for power [and other] investments."

EleQtra's Cohen agrees: "The issue is that the bidding rules that are in place in most of these countries are not designed to process and award complex transactions," he says. "They're designed for the procurement of standardised goods and services where price is really the driver. The bidding and procurement structures are not really suited for greenfield infrastructure investments that are incredibly complex and multi-partied."

In some countries, Tarnoy says, private investment does not seem to be welcomed or encouraged, with large numbers of local stakeholders evidently of the opinion that such investments should be carried out within the public sector.

FIVE WAYS TO UNLEASH INFRASTRUCTURE INVESTMENT FLOWS

Andrew Johnstone, Managing Director, African Infrastructure Investment Managers

i) Projects should be simplified, they are too complicated and could be smaller. If you can do a first stage for US $100 million, as opposed to the full roll-out for $500m, this means only two sources of funding, not five. They could be planned and built quicker and start delivering to communities quicker.

ii) There should be greater standardisation in government policies, procedures and implementing models. Use templates rather than reinventing the wheel. If a toll-road project works in South Africa, other regions should seek to emulate this model and adopt the same approach.

iii) Governments should either have a policy to consider bilateral or unsolicited approaches, or avoid them all together. Tenders and bidding processes could be better prepared, with clear timelines and appointed credible advisors.

iv) Governments should communicate their programmes better. An example of a well-run process is the South African renewables programme, where government engaged well with the market and created strong competitive tension, which reflected in bids with competitive tariffs.

v) Don't do the most grandiose project for a first public-private partnership (PPP). Start with the simple ones, learning through doing.

WHAT CAN GOVERNMENTS DO?

"Clear and lasting regulations supported by competent end effective investment promotion agencies would help," says Paul Runge, Managing Director of Africa Project Access; "[that is], effective and competent investment promotion agencies manned by staff with business backgrounds and experience." He also states that responsible local content policies that support skills development and knowledge transfer should be components of all master concessionaire agreements."

Regulators should also ensure economically viable policies are in place that allow and encourage investment, Maziya says. "They should be fair and consistent and ensure that regulation is used to maintain law and order, stimulate economies and attract long-term investors who have a passion for Africa's development."

A formal policy welcoming and incentivising private power generation is an important first step towards easing constraints, says Tarnoy. "Further steps should focus on building technical and administrative capacity and implant processes to be able to respond efficiently to private sector proposals or indeed to structure and package opportunities that can be offered under international competitive bidding."

Governments, therefore, need to work with the private sector to find transparent, unsolicited procurement and bid models that can secure that much-needed private infrastructure investment capital. And this is a view unanimously held by both international and domestic project developers.

"The environment for project developers in Africa is an exciting one, says White. "There are many projects that are viable given Africa's strong economic growth and, if developed, have the potential to help further unlock the true potential of the continent. Each project adds to capacity and the ability for Africa to develop further." Ai