

Delivering Projects in Complex Environments

Opportunities for British businesses and professionals in dynamic, emerging markets such as Nigeria

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Summary

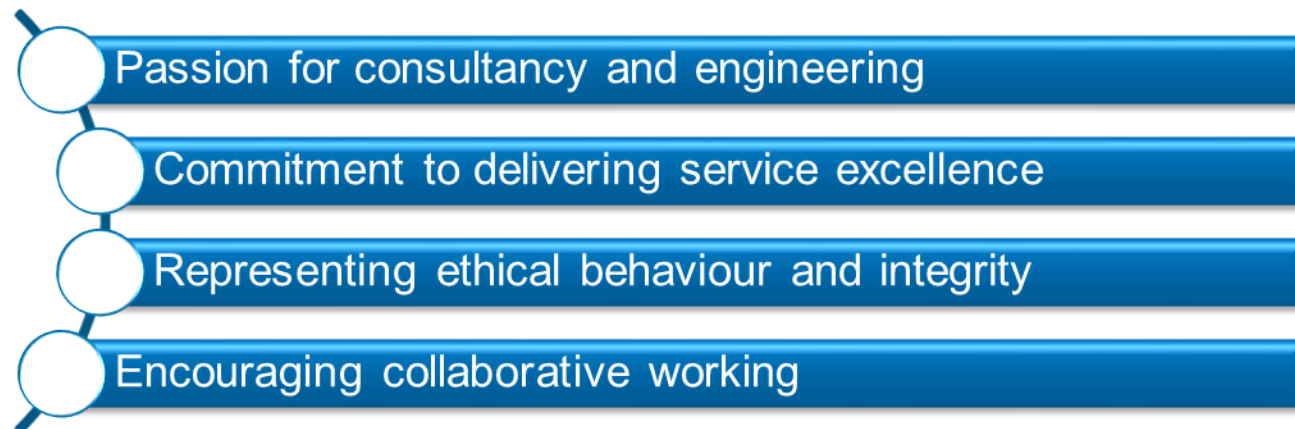
- About ACE
- How difficult is difficult?
- Market drivers of Nigeria
- Challenges for professionals
- Investment opportunities
- Future of professional services sector
- The way forward

About ACE

Purpose of ACE

- ACE exists to represent its members' interests to clients, both government and private sector, and stakeholder organisations, including the professional institutions, industry bodies and academic institutions. In addition ACE keeps abreast of the latest developments which affect our member's businesses.

Values



Membership



ACE's economic work

- Barriers to investment (May 2011)
- Signals to invest (Feb 2011)
- Transport - Infrastructure Priorities (Sep 2010)
- Infrastructure: a case for funding (Nov 2010)
- Microgeneration (Sep 2010)
- The Infrastructure Investment Trust (May 2010)
- Retrofitting the UK's housing stock (May 2010)
- Department for Infrastructure (May 2010)
- Infrastructure bank (Mar 2010)
- Infrastructure funding (Mar 2010)
- Avoiding the infrastructure crunch (Jan 2010)
- Infrastructure gilts (Jan 2010)
- Infrastructure assessment (Jan 2010)

To download economic papers
please go to:

www.acenet.co.uk/Economic

Review of infrastructure projects, literature, and the
challenges ahead



What is a “difficult” market?

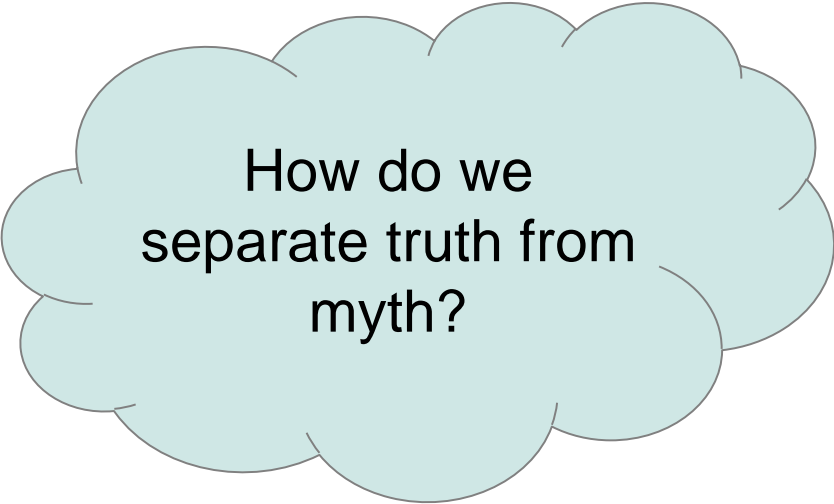
How difficult is “difficult”?

Market challenges can include:




- Economic growth (or lack of)
- Quality of infrastructure: transport, utilities, sanitation
- Social challenges: health, education, population
- Business culture
- Integrity
- Political stability
- Crime and terrorism

How difficult is “difficult”?


Two key questions



How do we
separate truth from
myth?



How do we
manage the risks?



UK market's perceptions of Africa

The popular perception?

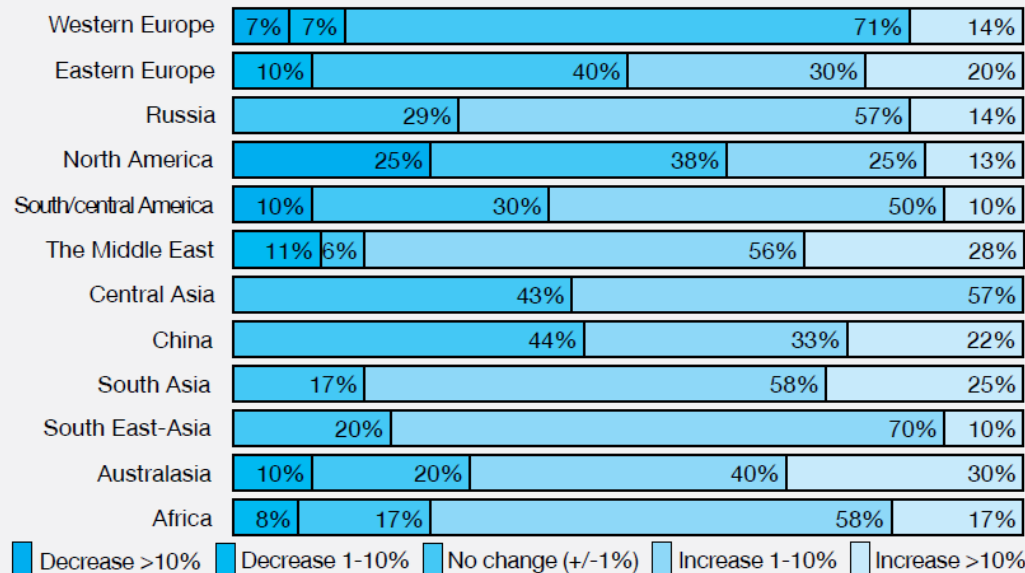


ACE State of Business 2011

International market fee expectations

International markets

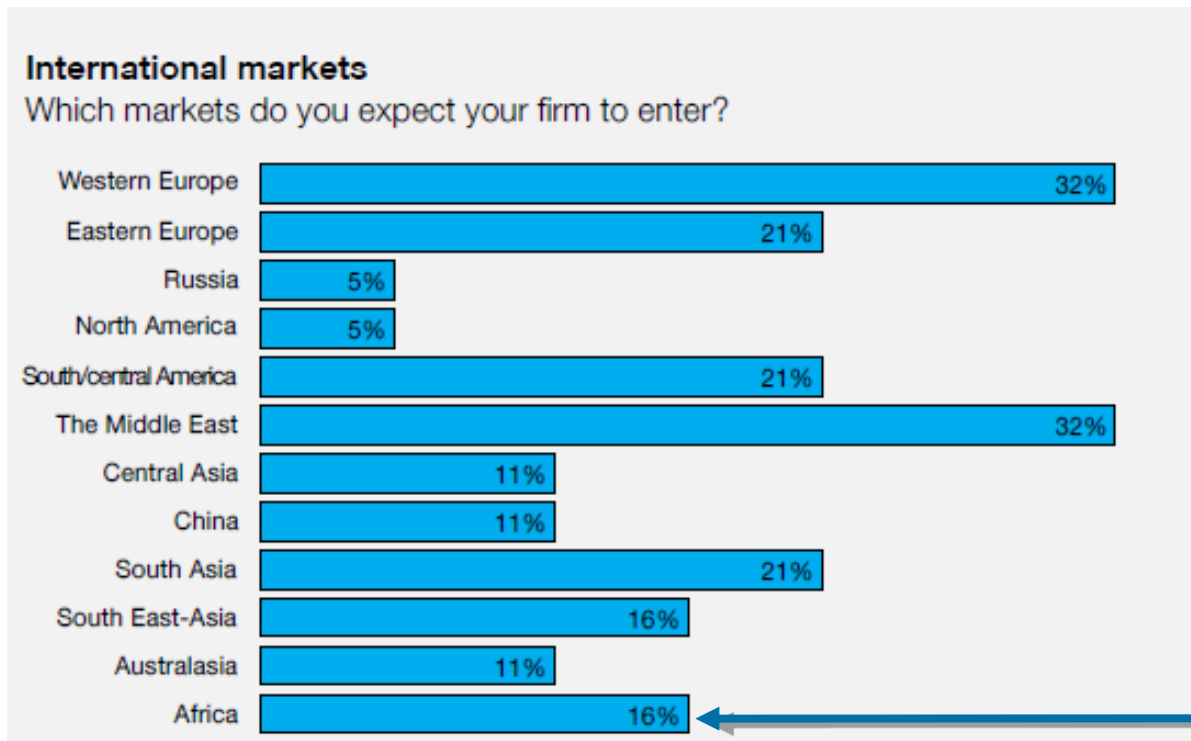
What are your expectations for fees earned in the following:



Mostly stable fee expectations in Africa, with 25% predicting increase

ACE State of Business 2011

International market fee expectations



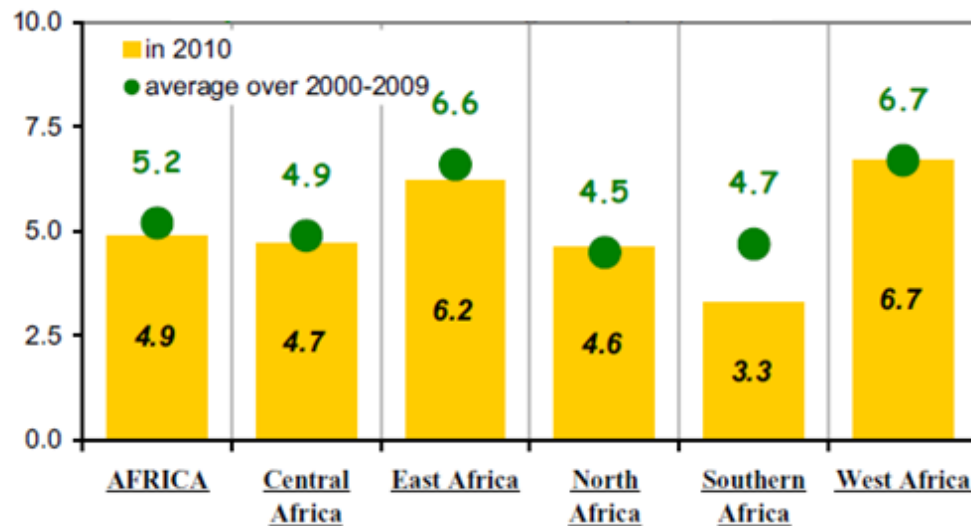
16% of companies expect to enter the African market

Market drivers

Macroeconomic trends

Real GDP growth (%)

- Africa achieved average growth of 4.9% in 2010 compared with only 3.1% in 2009.
- Africa has been relatively resilient compared to other countries.



Infrastructure to 2030

Growth rates in GDP

- Africa's GDP growth is expected to be 2.85% between 2005 and 2015, and 3.52% between 2015 and 2025

	2000	2005	2015	2025	2035	2000 to 2005	2005 to 2015	2015 to 2025	2025 to 2035
GDP (USD billions)									
OECD North America	10 556	11 884	15 059	18 126	21 528	2.40	2.40	1.87	1.73
OECD Europe	9 637	10 744	13 555	16 145	18 237	2.20	2.35	1.76	1.23
OECD Pacific	4 366	4 749	6 011	7 293	8 657	1.70	2.38	1.95	1.73
Former Soviet Union	1 414	1 655	2 250	3 061	3 989	3.20	3.12	3.13	2.68
Eastern Europe	453	540	751	1 025	1 429	3.58	3.35	3.16	3.38
China	4 861	6 499	10 845	16 345	23 611	5.98	5.25	4.19	3.75
Other Asia	2 955	3 587	5 363	7 639	10 657	3.95	4.10	3.60	3.39
India	2 279	2 903	4 727	7 205	10 579	4.96	5.00	4.30	3.92
Middle East	952	1 083	1 398	1 845	2 301	2.61	2.59	2.81	2.23
Latin America	2 605	2 965	4 072	5 466	7 181	2.62	3.22	2.99	2.77
Africa	1 530	1 830	2 670	3 773	5 191	3.65	3.85	3.52	3.24
Total	41 609	48 439	66 700	87 923	113 362	3.09	3.25	2.80	2.57

Source: OECD - Infrastructure to 2030, Mapping policy for electricity, water and transport

Infrastructure to 2030

Growth rates in population

- Africa's population is forecast to grow at one of the fastest rates. 2.21% between now and 2015.

	2000	2005	2015	2025	2035	2000 to 2005	2005 to 2015	2015 to 2025	2025 to 2035
Population (millions)									
OECD North America	405	426	466	504	537	1.02	0.90	0.79	0.64
OECD Europe	514	520	525	526	509	0.23	0.10	0.02	-0.33
OECD Pacific	197	201	205	204	200	0.40	0.20	-0.05	-0.20
Former Soviet Union	254	252	251	248	247	-0.16	-0.04	-0.12	-0.04
Eastern Europe	100	96	91	85	82	-0.81	-0.53	-0.68	-0.36
China	1 272	1 318	1 406	1 467	1 479	0.71	0.65	0.43	0.08
Other Asia	891	967	1 119	1 265	1 401	1.65	1.47	1.23	1.03
India	1 014	1 089	1 230	1 352	1 450	1.44	1.22	0.95	0.70
Middle East	168	192	245	300	353	2.71	2.47	2.05	1.64
Latin America	415	446	506	560	603	1.45	1.27	1.02	0.74
Africa	794	892	1 110	1 358	1 617	2.35	2.21	2.04	1.76
Total	6 023	6 399	7 154	7 869	8 477	1.22	1.12	0.96	0.75

Source: OECD - Infrastructure to 2030, Mapping policy for electricity, water and transport

Infrastructure to 2030

Growth in rail traffic 2005 - 2035

Estimates within the report estimate a 1.1% growth in freight traffic, and 6.9% in passenger traffic

	Absolute growth 2005-35		Per cent growth 2005-35		Per cent absolute freight traffic growth	Per cent absolute passenger traffic growth	Per cent absolute growth as freight
	Ton-km	Pass-km	Ton-km	Pass-km			
China	2 206 569	691 405	142.7	135.8	35.2	35.5	76.1
US and Canada	1 649 601	13 752	62.7	27.5	26.3	0.7	99.2
Russian Federation	1 134 617	134 212	85.5	73.3	18.1	6.9	89.4
India	504 982	567 903	142.7	116.0	8.1	29.2	47.1
Non-Russia CIS	304 377	50 702	73.3	56.1	4.9	2.6	85.7
Eastern Europe, Turkey	135 690	36 430	93.3	51.6	2.2	1.9	78.8
Africa	92 052	5 041	73.3	27.5	1.5	0.3	94.8
European OECD countries	71 020	134 950	27.5	42.3	1.1	6.9	34.5
Latin America	65 169	3 918	51.6	27.5	1.0	0.2	94.3
Pacific OECD countries	53 401	133 271	32.6	51.6	0.9	6.8	28.6
Middle East, North Africa	24 009	83 251	73.3	93.3	0.4	4.3	22.4
Other non-OECD Asia	23 403	90 730	69.1	93.3	0.4	4.7	20.5
Total world	6 264 890	1 945 564	87.5	88.9	100.0	100.0	76.3

Source: IEA (2003), ETP Transport Model, Spreadsheet version 1.28.

Source: table from OECD - Infrastructure to 2030, Mapping policy for electricity, water and transport

Infrastructure to 2030

Estimated value of rail construction - forecast

Sub-Saharan Africa



- Current asset value - \$10.3 billion
- Construction value 2000-2030 - \$13 billion
- 2030 asset value - \$12.6 billion

Middle East and North Africa

- Current asset value - \$9.0 billion
- Construction value 2000-2030 - \$26 billion
- 2030 asset value - \$23.4 billion



Global competitiveness report

World competitiveness rankings

Category		
Infrastructure – overall	125	28
Quality of roads	120	26
Quality of railway infrastructure	104	19
Quality of port infrastructure	117	17
Quality of air transport infrastructure	104	24
Quality of electricity supply	139	9



Global competitiveness report

World competitiveness rankings

Category		
Intellectual property protection	104	11
Diversion of public funds	129	11
Irregular payments and bribes	123	20
Wastefulness of government spending	122	53
Burden of government regulation	36	83
Ethical behaviour of firms	96	12

Global competitiveness report

World competitiveness rankings

Category		
Hiring and firing practices	7	36
Availability of financial services	93	4
Affordability of financial services	75	12
Availability of latest technologies	107	7
Local supplier quality	88	21
Capacity for innovation	54	13

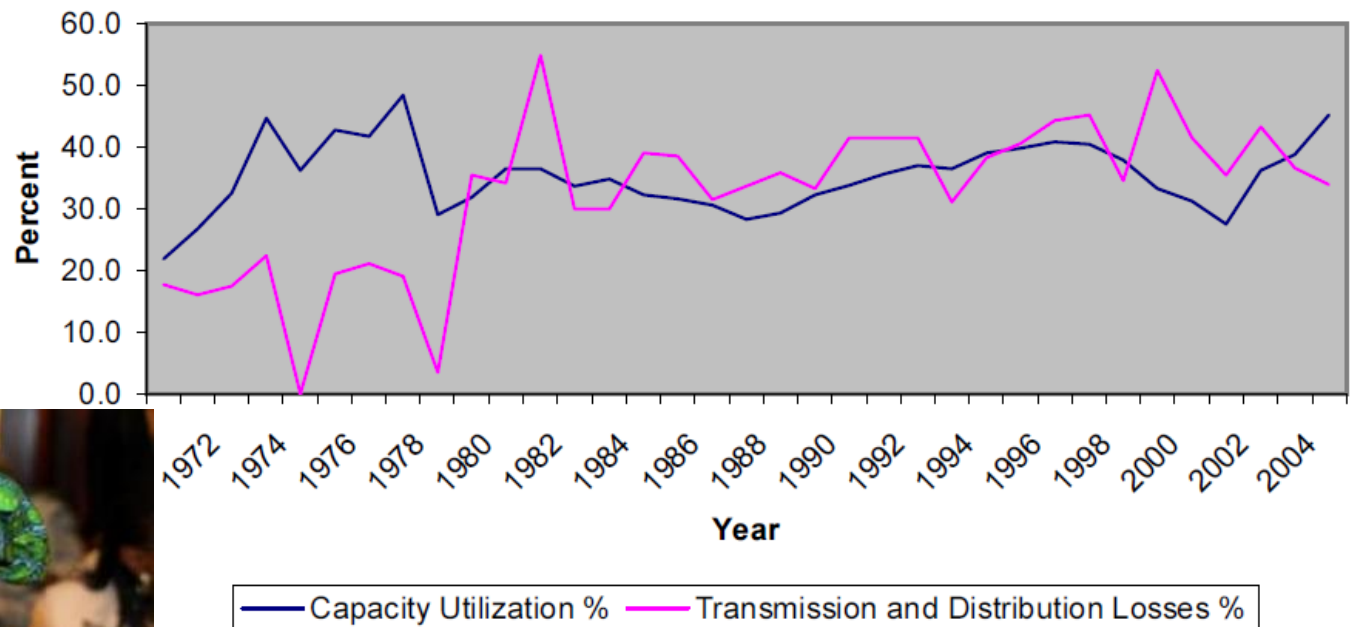
Social challenges

Infrastructure challenges - schools and hospitals

- Improvements in these areas should help to improve the following areas:
 - Life expectancy at birth, total (years) - 51
 - Literacy rate, adult total (% of people ages 15 and above) - 61%
 - School enrolment, primary (% gross) - 89

Energy challenge

Figure 1: Indicators of Electricity Crisis in Nigeria 1970 to 2004



Challenges for professionals

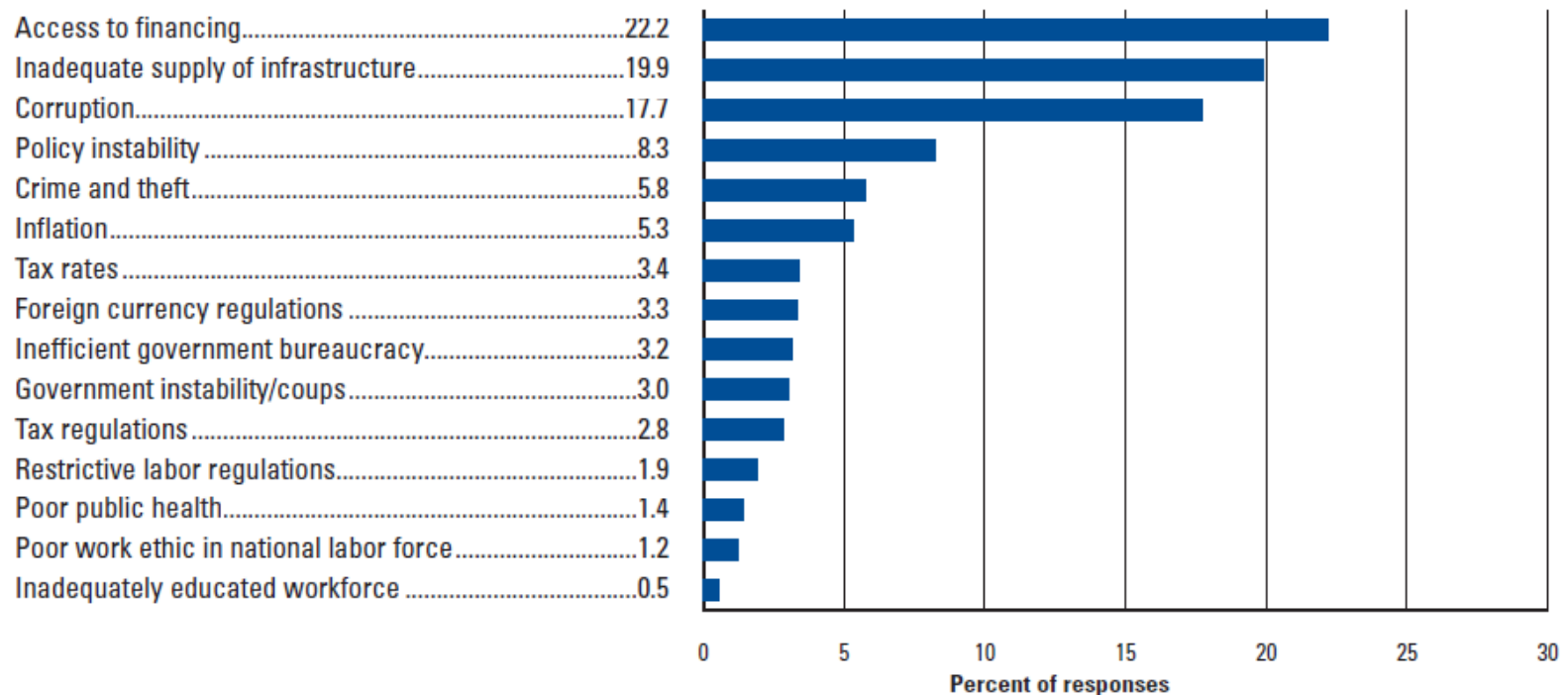
Addressing risk...



Global competitiveness report

Nigeria

- The most problematic factors for doing business in Nigeria



Key market challenges

- Political stability
- Local capability
- Transparency
- Regulation
- Credit insurance
- Terrorism
- Overcoming perceptions



Things to know/analyse

Things you should do before entering a new market

- Know your own company – SWOT analysis
- Analyse the market conditions in the country you are entering – Skills, employment, labour rates, competition, customer base, investment conditions, regulations etc
- Analyse the risks – political, regulatory, distribution issues
- Understand the costs, and regulatory procedures
- Direct vs indirect entry
- Forecast your revenue and profit based on a variety of scenarios
- Calculate your minimum acceptable return on your investment

Investment opportunities: Africa

Mackenzie universal

Africa & Middle East Class Series A

- Total fund assets: \$7.36 million
- Asset Class: Global Equity
- Management Fees: 2.50%

Major Holdings*

Major Holdings Represent 39.0%

Zenith Bank Ltd.	Nigeria	Diversified Banks	4.8%
Access Bank Nigeria PLC	Nigeria	Diversified Banks	4.7%
First Gulf Bank PJSC	United Arab Emirates	Diversified Banks	4.1%
Industries Qatar QSC	Qatar	Industrial Conglomerates	3.8%
Türkiye Halk Bankası AS	Turkey	Diversified Banks	3.7%
Türkiye İs Bankası Series C	Turkey	Diversified Banks	3.7%
Arabtec Holding Co.	United Arab Emirates	Construction & Engineering	3.7%
Union National Bank	United Arab Emirates	Diversified Banks	3.6%
Egyptian International Pharmaceutical Industries Co.	Egypt	Pharmaceuticals	3.5%
Qatar National Bank	Qatar	Diversified Banks	3.4%

Macquarie

ADCB Macquarie Infrastructure Funds (AMIF)

- Launched in 2008 to invest in infrastructure and infrastructure-like assets in the Middle East and North Africa, with a primary focus on the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).
- AMIF is an unlisted 10-year closed-end fund.
- AMIF has a \$US1 billion targeted fund size and is co-sponsored by Macquarie and Abu Dhabi Commercial Bank (ADCB)

Macquarie

ADCB Macquarie Infrastructure Fund (AMIF)

- Target assets

- AMIF seeks to invest in greenfield (pre-operations stage) or brownfield (operations stage) assets in a range of infrastructure sectors, including but not limited to infrastructure for industrial and mixed-use developments, water and wastewater utilities, ports, airports, rail networks, communications infrastructure, electricity generation / transmission and distribution networks, gas transmission and distribution networks, district cooling, social infrastructure and other assets that fall within AMIF's investment criteria.

- Assets

- AMIF has made one investment to date, a \$US188 million investment which will support critical industrial infrastructure developments commissioned by ZonesCorp, an independent government authority owned by the Abu Dhabi Government through the Abu Dhabi Department of Planning and Economy.
- ZonesCorp was established in 2004 and acts as a vehicle for the development of infrastructure in industrial zones located in the Emirate of Abu Dhabi.

Macquarie

- **African Infrastructure Investment Managers (AIIM)**
- AIIM was established in 2000 as a joint venture between Macquarie and the Old Mutual Investment Group (South Africa) (OMIGSA),
- AIIM has positioned itself as one of the leading unlisted infrastructure equity investment managers in the African market.
- AIIM is the manager of a group of niche funds designed to invest long-term institutional equity in African infrastructure projects.

Macquarie

African Infrastructure Investment Fund (AIIF)

- AIIF was established in 2004, with total investor commitments of ZAR1.32 billion. The fund is closed to new investors and was fully committed in January 2009.
- AIIF has largely focused on transport assets in South Africa and Nigeria, but also has stakes in telecommunications and power assets.

Macquarie

African Infrastructure Investment Fund (AIIF)

- The AIIF investment portfolio includes:
 - N3 Toll Concession (Pty) Ltd, a 30 year concession to operate a 420km toll road on the N3 between Cedara in Kwa Zulu Natal and Heidelberg in Gauteng; and
 - Trans African Concessions (Pty) Ltd, a 30 year concession to operate a 580km toll road on the N4 between Witbank in South Africa and Maputo in Mozambique
 - Kelvin Power (Pty) Ltd, a 600MW coal-fired power plant located in Johannesburg, South Africa.
 - Neotel (Pty) Ltd, a telecommunications infrastructure service provider and the holder of the second fixed line network licence in South Africa;
 - **Lekki Concession Company Ltd, the holder of a 30 year concession to build, finance and operate a 50km commuter toll road in the city of Lagos, Nigeria; and**
 - Umoya Energy (Pty) Ltd, the developer of a 100MW wind farm in the Western Cape, South Africa.

DfID projects

PROJECT TITLE	DESCRIPTION	STATUS	BUDGET
Partnership for Transforming Health Systems 2 [104229]	Improve the delivery and use of effective, replicable, pro-poor health services for the management of common health problems	Operational	£148,638,000
Education Sector Support Programme in Nigeria [104200]	The planning, financing and delivery of sustainable and replicable basic education services in terms of access, equity and quality are improved at federal level and up to six states.	Operational	£105,910,000
Enhancing Nigeria's Response to HIV/AIDS [114206]	To improve access to and coverage of effective HIV and AIDS prevention, treatment, care and support information and services reaching the most vulnerable populations	Operational	£100,000,000
GEMS - Growth and Employment in States Programme (Gems) [104190]	To improve private sector competitiveness for employment generation	Operational	£70,900,000
Sexual and Reproductive Health for HIV/AIDs Reduction [104212]	To increase behaviours conducive to sexual and reproductive health among poor and vulnerable populations in Nigeria	Complete	£52,698,330
Improving Maternal, Newborn and Child Nutrition in Northern Nigeria [201874]	Delivery of nutrition interventions through routine health services, funded by government.	Operational	£50,000,000
State Partnership for Accountability, Responsiveness and Capability [104189]	The efficiency and effectiveness of selected state level governments' use of public resources is enhanced.	Operational	£44,055,180
Routine Immunisation [104227]	Improved delivery of routine immunisation for children and women of reproductive age via the primary health care system in 4 to 6 low-coverage states in Northern Nigeria.	Operational	£41,100,000
Girls Education Project. [104199]	Improve girls access, attendance, retention and relevant learning outcomes at primary and junior secondary level (UBE).	Operational	£41,054,480
Deepening Democracy in Nigeria [200274]	To strengthen the democratic character of Nigerian political processes and outcomes.	Operational	£35,000,000

Source: DfID - <http://projects.dfid.gov.uk/>

Future of the professional services sector

The professional services sector in Nigeria



Company size – is there the capacity to deliver?



Organisation and representation

Concluding thoughts

The way forward for Africa and Nigerian Professional Services industry

Conclusions

- “Difficult” markets pose a wide range of challenges
- Some difficulties are misconceptions – need to separate opinion from fact
- Africa has its challenges – but there are also great opportunities
- Nigeria is no exception
- Due diligence is always required – understand the market conditions and issues



Conclusions

- Nigeria has much to do, but can achieve much
- Social infrastructure, transport, energy, utilities are key to development
- Must address issues of crime, corruption and political stability
- Capacity-building in the professional services market
- Local content legislation may be required





Thank you