



A programme of the ACP Group
and the European Commission for
the promotion of investment

PRO€INVEST

**Public Utilities, Transport and Assembling &
Subcontracting in selected ACP regions :
Partnership & Investment Opportunities**

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SECTION 1

Sector Studies: Methodology & Key Results

NATURE

Analysis covering a broad spectrum of activities, in agriculture, industry and services and involving the **selection, ranking and detailed analysis of sectors.**

OBJECTIVE

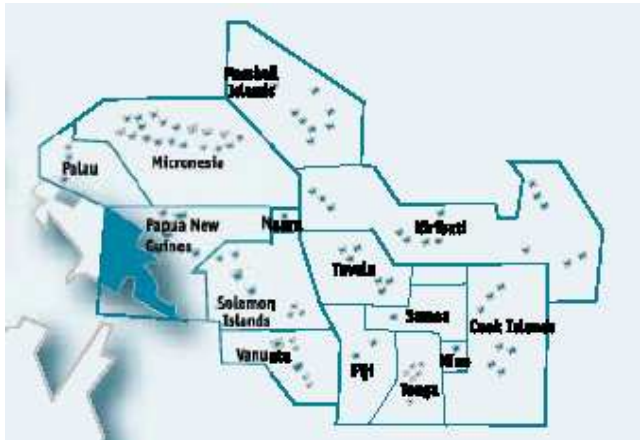
- ✓ To identify sectors / sub-sectors offering **opportunities for investment and inter enterprise co-operations**
- ✓ To provide a **strategic management and information tool** to Pro€Invest for the identification and planning of future actions

GEOGRAPHICAL COVERAGE

Caribbean



Pacific



METHODOLOGY

1- Background Research

2- Interviews in Europe

3- Interviews in ACP Countries

4- Detailed Analysis

1- Background Research (Scanning of Sectors)

Broad based review of sectors based on desk work, involving:

- ✓ review of economic & sector studies
- ✓ analysis of production & trade statistics
- ✓ review of main policy documents

2 - Fieldwork in Europe

Interviews with

- ✓ business associations
- ✓ DFI & other financial institutions
- ✓ donors/development agencies
- ✓ companies

Interviews conducted in eleven countries (Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, Sweden and United Kingdom)



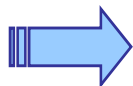
For a total of about 200 interviews

3 - Fieldwork in ACP Countries

Interviews with

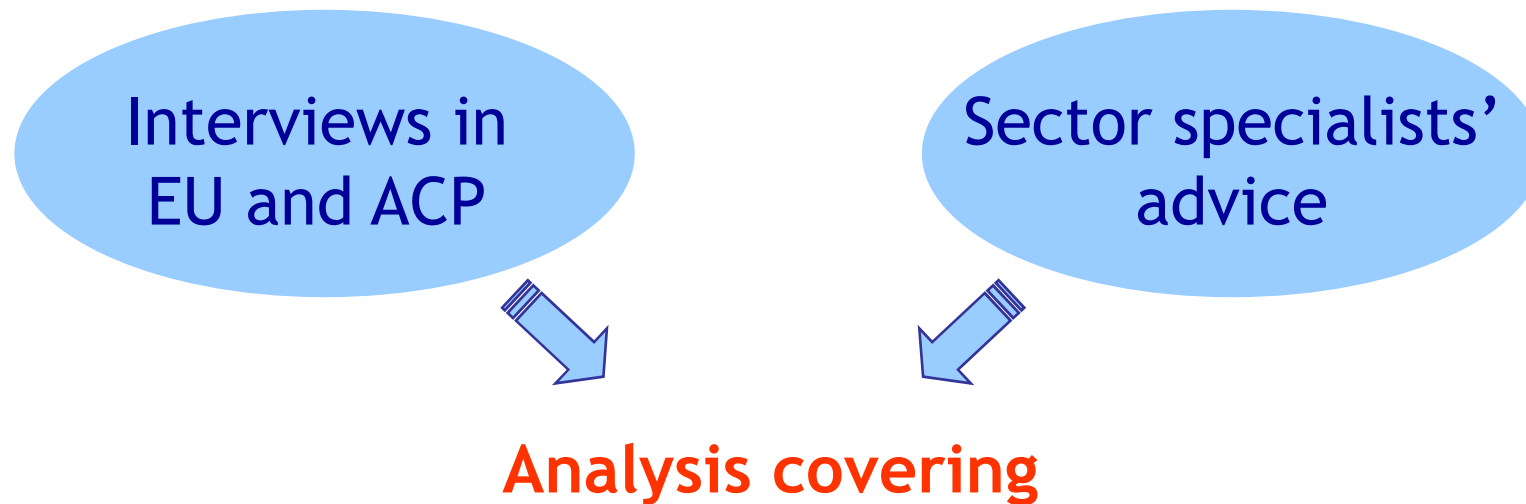
- ✓ business associations
- ✓ banks and DFI
- ✓ donors & development agencies
- ✓ public entities & promotional bodies
- ✓ companies
- ✓ consultants

West & Central Africa	East Africa & Indian Ocean	Caribbean	Pacific
<ul style="list-style-type: none">✓ Burkina Faso✓ Cameroon✓ DRC✓ Ghana✓ Mali✓ Nigeria✓ Senegal✓ Chad	<ul style="list-style-type: none">✓ Ethiopia✓ Kenya✓ Madagascar✓ Mauritius✓ Tanzania✓ Uganda(plus some work in South Africa)	<ul style="list-style-type: none">✓ Dominican Republic✓ Jamaica✓ Guyana✓ Trinidad & Tobago✓ Barbados	<ul style="list-style-type: none">✓ Fiji✓ Papa New Guinea✓ Samoa(plus some work in Australia)



For a total of about 600 interviews

4 - Detailed Analysis



- ✓ Main trends in domestic and international demand
- ✓ Market structure and distribution channels
- ✓ Operating environment and policy framework
- ✓ Nature of investment opportunities

Sector Ranking

CRITERIA

- ✓ Adequacy of the natural & human resource base
- ✓ Adequacy of relevant infrastructure
- ✓ Trends in demand - Growth potential
- ✓ International competitiveness
- ✓ Inter-sector linkages
- ✓ Intensity of EU trade & FDI relationships
- ✓ Sector specific criteria

KEY RESULTS

<i>Rank</i>	West & Central Africa	East Africa & Indian Ocean	Caribbean	Pacific
1	ICT	Public Utilities	Tourism	Tourism
2	Infrastructure and Construction	Transport Infrastructure & Services	ICT	Fisheries & Aquaculture
3	Assembling & Subcontracting	Tourism	High-value agriculture	High-value agriculture
4	Transport Services	ICT	Music	ICT
5	Tourism	Floriculture	Professional Services	
6	Garments & Textiles	Fisheries & Aquaculture		
7	Wood & wood processing	High-value agriculture		
8	Mining	Garments & Textiles		
9	Fisheries & Aquaculture	Medium Scale Mining		
10	Selected Agro-industries	Leather & leather goods		

SECTION 2

**Investment & Partnership Opportunities
in Public Utilities, Transport and
Assembling & Subcontracting**

PUBLIC UTILITIES

DEFINITION

Includes namely:

- ✓ power generation and distribution
- ✓ water supply & treatment
- ✓ sewage

Focus on investments in new initiatives, rehabilitation of privatized infrastructure as well as management of publicly owned schemes

PUBLIC UTILITIES: Key Facts

Power

- ✓ Problems with power supply are one of the most severe constraints to operations mentioned by private operators in Sub-Saharan countries
- ✓ World Bank on Kenya study estimated the “cost of unmet demand” for power during the 2000 drought at some US\$ 400-630 million (i.e. 4-6% of GDP)

Recent trend towards **privatization and PPP/PSP**:
Tsavo Power Company (Kenya), *Songas* (Tanzania),
Electrogaz (Rwanda), *Azito Energie* (Côte d'Ivoire)

PUBLIC UTILITIES: Key Facts

Water supply & sewage

- ✓ In West and Central Africa on average only 60% of the population have access to safe water (and 70% of the urban population have access to sanitation)
- ✓ The situation is even more severe in East Africa: in Kenya, Uganda, Madagascar and Eritrea only 50% of population has access to safe water (and just 25% in Ethiopia)
- ✓ Operators are afflicted by very high losses (sometimes in the order of 50%) and low cost recovery (opportunities for efficiency gains)

Recent trend towards **privatization and PPP/PSP**: *Biwater* (Tanzania & Republic of Congo), *Suez-Ondeo* (Uganda), *Vivendi* (Burkina Faso & Niger), *Saur* (Mali)

PUBLIC UTILITIES: SWOT Analysis

Strengths & Opportunities

- ✓ Large untapped demand, especially for power
- ✓ Increasing interest by IFI and institutional investors (e.g. *CDC* *Globeleq*)
- ✓ Availability of instruments to mitigate risks (*MIGA*)

Weaknesses & Threats

- ✓ Weak legal framework for PPP/PSP
- ✓ Political resistance towards PPP/PSP (especially in water distribution)
- ✓ Region perceived as “high risk” (political risk, regulatory risk)

PUBLIC UTILITIES: Investment Opportunities

- ✓ Independent **power generation plants**: ranging from 20 to 60 MW at a cost of roughly US\$ 1 million/MW (but even smaller schemes are possible - e.g. *Gisenyi Electricity* - Rwanda)
- ✓ Management & rehabilitation of **power transmission and distribution networks**: benefits of separating transmission and distribution appear limited in African countries and “bundling” is likely to appeal prospective investors
- ✓ Management of **water distribution and sewage systems** in major urban centers (say, with population above 100,000)

PUBLIC UTILITIES: Recent Developments

Globeleq announces joint venture to operate Ugandan electric distribution company

21 May 2004

Globeleq and Eskom Enterprises, the South African electric utility, have jointly signed a concession agreement to manage and operate the electricity distribution system in Uganda for a period of twenty years. The joint venture company, Umeme Limited, is 56% owned by Globeleq and 44% by Eskom Enterprises.

Umeme is committed to investing in the existing electricity distribution network to provide safer and more reliable electricity to consumers in Uganda. Umeme will take over operational responsibility after a four month transition period and will seek to involve a local investor in the business.

(Source: www.globeleq.com)

PUBLIC UTILITIES: Recent Developments

NAMIBIA POWER CORPORATION

EPC TENDER PRE-QUALIFICATION QUESTIONNAIRE FOR THE KUDU-GAS-TO-POWER PROJECT

TENDER No. NPWR/2004/43

NamPower, the national electric utility of Namibia, is developing and will be a majority shareholder in the 800MW Kudu Power Station near Oranjemund in south-west Namibia.

The combined cycle project will use natural gas from the Kudu gas field which is located 170km off-shore. The plant will be connected to the Namibian and southern Africa power grid. Power from the plant will be purchased under long-term Power Purchase Agreements by NamPower and by Eskom, the South African electricity utility. NamPower has signed a JDA with Energy Africa and NamCor on the development of the Project and Eskom on the power purchase agreements.

NamPower has appointed a consortium of Ernst & Young and Saha International as financial advisors, Leboeuf, Lamb, Greene & MacRae/Lorentz & Bone as legal advisors and ESB International as technical advisor for the project.

NamPower will select an engineer, procure, construct (EPC) contractor for the Project through a competitive process. Enquiry documents will be issued to pre-qualified tenderers early in 2005 and the EPC contractor will be selected by mid 2005.

TRANSPORT INFRASTRUCTURE & SERVICES

DEFINITION

Includes namely:

- ✓ road transport (including inland dry ports)
- ✓ railways
- ✓ maritime ports
- ✓ airports

Focus on opportunities related to investments in new initiatives or rehabilitation (usually in connection with privatization) but also the management of publicly owned infrastructure

TRANSPORT INFRASTRUCTURE & SERVICES:

Key Facts

- ✓ Value added in transport services typically accounts for 3%-5% of GDP
- ✓ Transport sector employs 5% to 8% of formal labor force
- ✓ Demand for freight and passenger transport is growing 1.5/2 times faster than GDP
- ✓ Improvement in transport infrastructure is a key priority for NEPAD

TRANSPORT INFRASTRUCTURE & SERVICES:

Key Facts

- ✓ **Road transport** accounts for 60-90% of tonnage transported across Africa. Some strategically important road links are still missing (e.g. Addis Ababa - Mombasa and Transgabonaise, all regarded as NEPAD priorities)
- ✓ **Railway** networks in CWAf include less than 10,000 km, compared with 25,000 in South Africa. Many railways companies are in difficult operating and/or financial conditions

Recent trend **towards privatization of rail operations:** Senegal/Mali (*Canac & Getma*), Cameroon (*Camrail*), Madagascar (*Madarail*) and others ongoing

TRANSPORT INFRASTRUCTURE & SERVICES:

Key Facts

- ✓ Some **airports** have undergone modernization (e.g. Kotoka International Airport) and the region can boast some excellent airlines (e.g. *Kenya Airways*) but airfreight costs are still high in many countries, with negative impact on tourism & export oriented business (e.g. cut flowers in Tanzania)
- ✓ Maritime **ports** exhibit a mixed picture, with some well operating structures (Banjul, Port Louis) and problematic cases (Mombasa)

Recent trend **towards private management of infrastructure**: container terminals in Dar es Salaam and Douala (granted to *Bolloré* and *Maersk*)

TRANSPORT INFRASTRUCTURE & SERVICES: SWOT Analysis

Strengths & Opportunities

- ✓ Demand for transport growing faster than GDP
- ✓ Increasing interest from IFI, institutional investors & some specialized operators
- ✓ Availability of instruments to mitigate risks (*MIGA*)

Weaknesses & Threats

- ✓ Weak legal framework for PPP/PSP
- ✓ Risk of head to head competition between various modes
- ✓ Region perceived as “high risk” (political risk, regulatory risk)

TRANSPORT INFRASTRUCTURE & SERVICES: Investment Opportunities

- ✓ **Road transport:** establishment of inland dry ports near major urban centers or at main border crossings (e.g. several structures envisaged in the region around Addis Ababa, tender for a dry port project in Bamako). Toll roads are not always viable but appear realistic along certain routes (e.g. Mombasa-Nairobi)
- ✓ **Railways:** margins to improve efficiency are significant, with wider potential benefits (Uganda's import export burdened by a "40% excess cost"). In certain cases, soft money required to alleviate social problems (e.g. Madagascar)
- ✓ **Maritime Ports:** increase capacity in cargo handling, namely containerized traffic (Mombasa container terminal has reached saturation)

TRANSPORT INFRASTRUCTURE & SERVICES: Recent Developments

Platinum Toll Highway (part of the link between Walvis bay and Maputo)

More than R3bn will be injected into the economy and about 3000 jobs created with the construction of **South Africa's third big toll road**, the Platinum Toll Highway, says Transport Minister Dullah Omar. At the launch of the R3,2bn Platinum Toll Highway in North West yesterday, Omar said the new toll road would link Maputo Harbor in Mozambique with Walvis Bay in Namibia.

The road is a **partnership between the public and private sectors**, driven by the National Roads Agency. It involves a **30-year concession to upgrade and manage the road**, but ownership will revert to the state at the end of the concession period. The lead shareholders are Spanish state-owned development agency *Compañía Española de Financiación del Desarrollo Cofides* and Spanish toll road contractor *Grupo Dragados*, which each hold 25% of Bakwena.

Adapted from *Business Day (Johannesburg)*, February 8, 2002

TRANSPORT INFRASTRUCTURE & SERVICES: Recent Developments



REPUBLIC OF KENYA & REPUBLIC OF UGANDA

Ministry of Finance, Government of Kenya

Ministry of Finance, Planning and Economic Development, Government of Uganda



JOINT CONCESSION OF KENYA RAILWAYS & UGANDA RAILWAYS

INVITATION TO PRE-QUALIFY TO BID FOR THE JOINT CONCESSION

The Joint Railways Concession Steering Committee representing the Government of Kenya through the Steering Committee for the Privatization of Kenya Railways ("SCKR") and the Government of Uganda through the Divestiture Reform Implementation Committee ("DRIC") facilitated by the Utility Reform Unit ("URU"), advertises this opportunity for private sector participation in the operations of Kenya Railways and Uganda Railways through 25-year concessions for freight traffic of the two railways and a seven-year concession for passenger traffic of Kenya Railways. The International Finance Corporation ("IFC") and Canarail, Inc. are the respective transaction advisors to SCKR and URU.

The SCKR and URU have issued a Request for Qualification ("RFQ") for pre-qualifying Lead Investors meeting financial and legal criteria. The RFQ contains the criteria, the application requirements and all other pre-qualification details for individual firms who may be interested in this business opportunity. The RFQ will be available online from September 1, 2004, at all of the following three web addresses:

Kenya Ministry of Finance

Uganda Ministry of Finance, Planning and Economic Development

International Finance Corporation Advisory Services

www.treasury.go.ke

www.perds.go.ug

www.ifc.org/advisory

ASSEMBLING AND SUB-CONTRACTING

DEFINITION

Includes several product lines in the mechanical & electromechanical industries, namely:

- ✓ Household appliances
- ✓ Transport equipment
- ✓ Agricultural machinery and implements
- ✓ Industrial components
- ✓ Simple industrial equipment

Focus on the establishment of production or assembling units targeted at domestic market and at international sub contracting relationships

ASSEMBLING AND SUB-CONTRACTING: Key Facts

- ✓ Local production capacity is currently very limited (not more than 300 plants in across CWAf and EAIO) and imports heavily impact on balance of payments (some US\$ 6 billion per year of imports in CWAf alone)
- ✓ Over the last decade, ACP countries (and especially Africa) benefited only marginally from the increasing trend towards delocalization, which was mainly aimed at Eastern Europe and Asia (exception: South Africa's automotive industry - *DaimlerChrysler, Renault-Nissan, etc.*)
- ✓ Recent signs of a new “southward trend”, also facilitated by initiatives specifically targeted at enhancing subcontracting relations (e.g. 1st Subcontracting fair in Senegal)

ASSEMBLING AND SUB-CONTRACTING: SWOT Analysis

Strengths & Opportunities

- ✓ Lower import duties for semi-finished goods
- ✓ Acceptable labor productivity in certain countries
- ✓ Increasing demand for durable consumer goods and industrial machinery and equipment

Weaknesses & Threats

- ✓ Limited production experience and lack of skilled labor
- ✓ High distribution costs due to intra-regional NTB
- ✓ Strong competition from other low wage countries

ASSEMBLING AND SUB-CONTRACTING : Investment Opportunities

- ✓ Establishment of local **assembling units for agricultural machinery and implements** (e.g. Italian company expanding its base in Algeria to West Africa)
- ✓ Establishment of **assembling units for vehicles** (e.g. *Tata* - buses in Senegal, *Piaggio Vehicles* looking at East Africa in its drive to “three-wheelerize” developing countries)
- ✓ Establishment of small **assembly units for household appliances** adapted to local context (e.g. solar driven ovens in Ghana)

ASSEMBLING AND SUB-CONTRACTING : Recent Developments

In Thiès (Senegal), a new enterprise, *Senbus*, is assembling 30-seat buses for the domestic and regional markets. The first units of this first vehicle assembly factory in Senegal rolled out the plant's doors in September 2003, thanks to a **partnership between Senegalese investors and India's *Tata International***.

Adapted from *Africa Recovery*, April 2004

ASSEMBLING AND SUB-CONTRACTING : Recent Developments

DAID Group, Foreign Partner Float N800m Gear Plant

As part of the efforts to consolidate its leadership position in the sale of mechanical power transmission products, *Daid Group* and *Sumitomo Cycle Europe* have approved the building of N800m gear plant in Lagos. The plant is primarily aimed at improving and expanding the supply of industrial machinery and services which will ultimately translate into cheaper products for Nigerian customers.

Daid Group went into the assembling of gear motors and conveyor lines in Nigeria with the backing of *Sumitomo Cycle*, the biggest gear manufacturer in the world, with whom they had been doing business as representative for Nigeria for many years.

Adapted from *This Day, January 29, 2002*

THANK YOU FOR YOUR ATTENTION