

The Changing Political/Economic Environment in Africa and the Middle East

GUEST SPEAKER PRESENTATION

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The Changing Political Economy Environment in Africa

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Dr Iraj Abedian

Pan-African Investment & Research Services

Outline

1. Why Africa Matters?
2. Drivers of Growth and Requirements for Success
3. Challenges and Obstacles Ahead
4. Concluding Remarks





Why Africa matters?

Why Africa Matters?

1. Africa is the last remaining region and the scale of Africa's infrastructure backlog requires effective solutions.
2. African states, by and large, lack the requisite capacity to deal with the scale and scope of the socio-economic infrastructure.
3. The financial requirements of the infrastructure are large and out of proportion with the fiscal and means and skills available to the African states. (with a handful of exceptions)

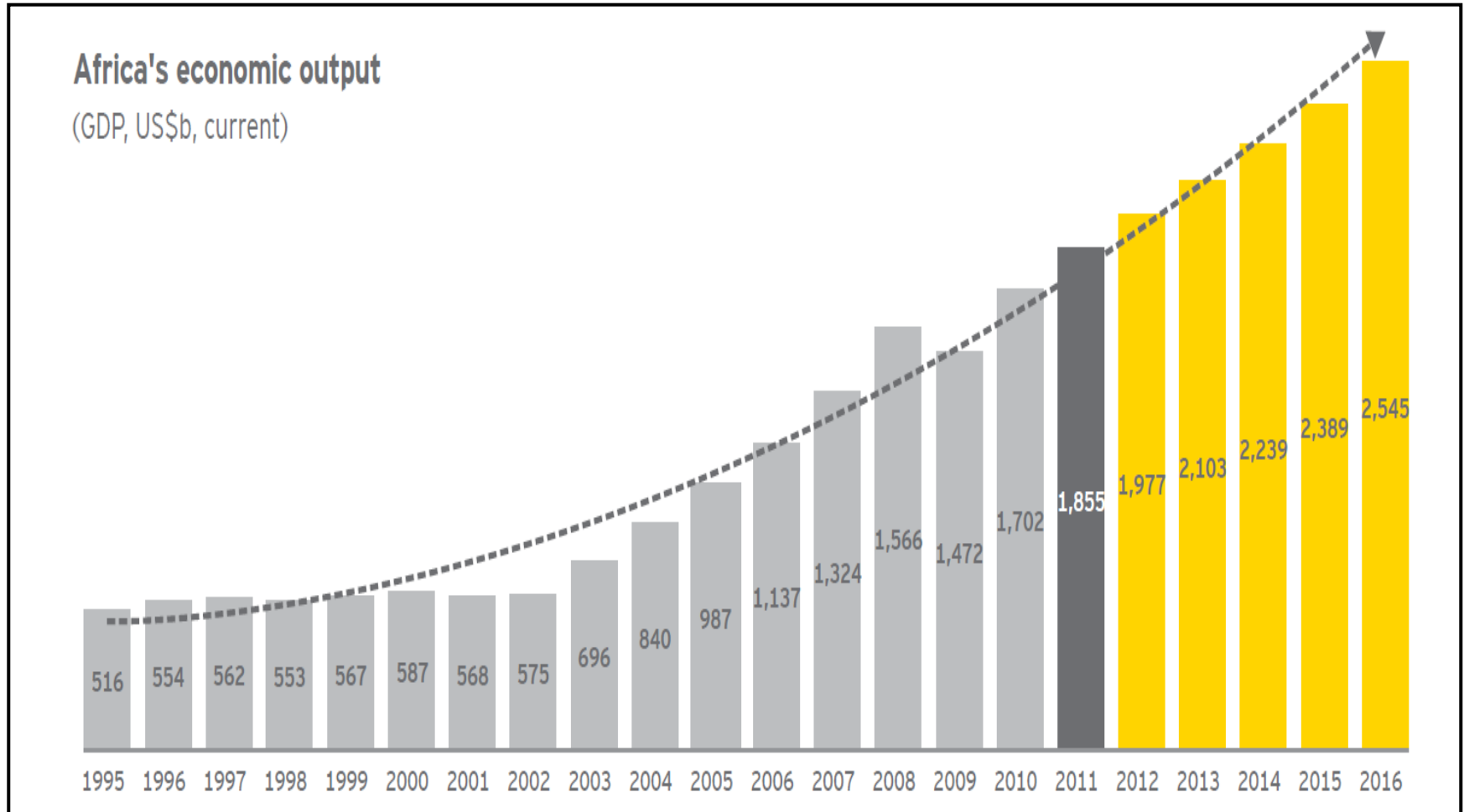


Why Africa Matters?

4. Meanwhile, global capital markets are cash-flush, looking for viable, high return long term projects.
5. The evolution of credible institutions and matching regulations in Africa is work in progress. Legal profession has much to offer.



Africa's GDP Rising Sharply... with social consequences

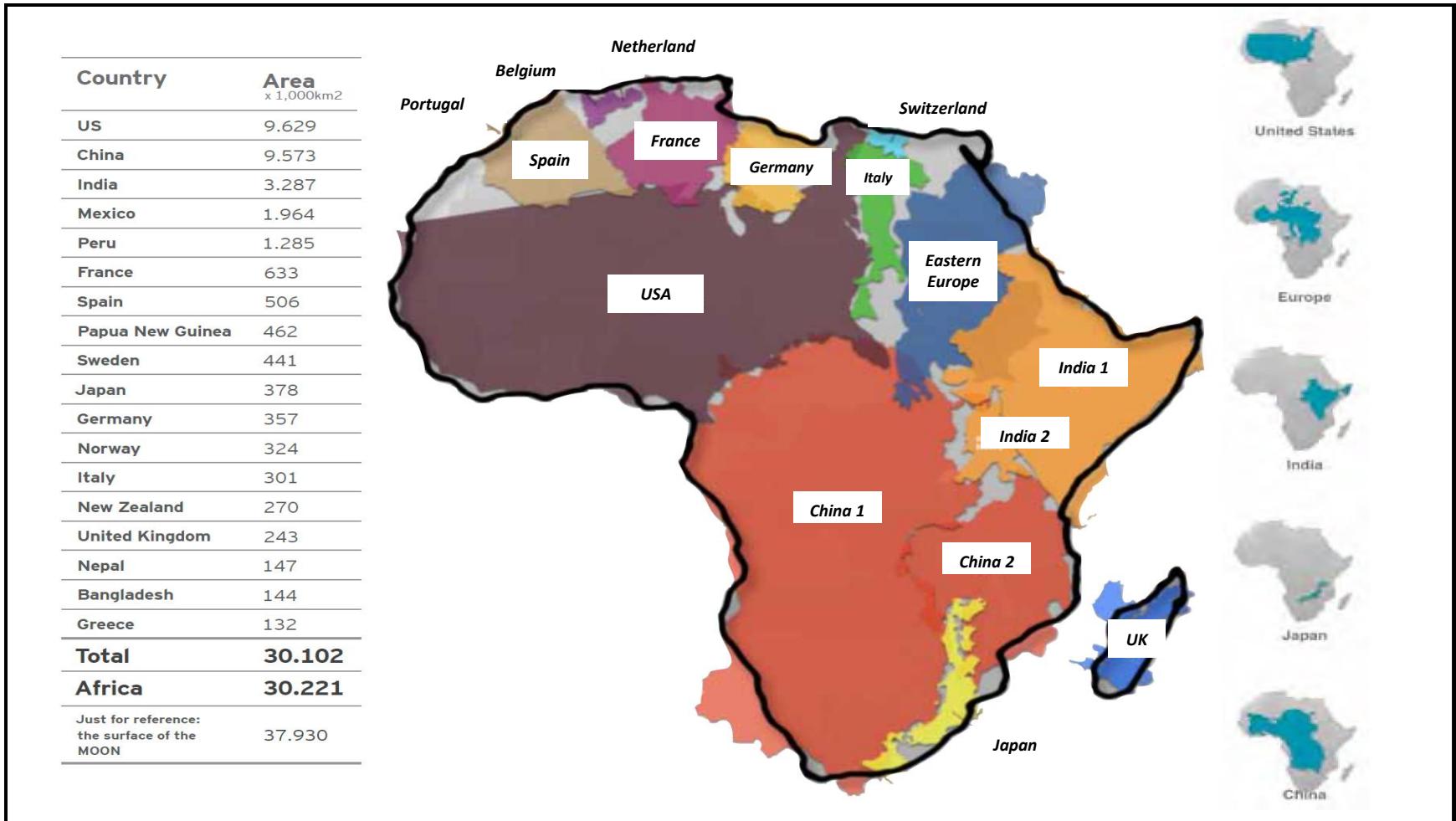


Source: IMF, WEO Database; expected 2011; forecasts 2012-2016.



Africa's Geographic Size in Context...

The only Frontier Left for Exploration



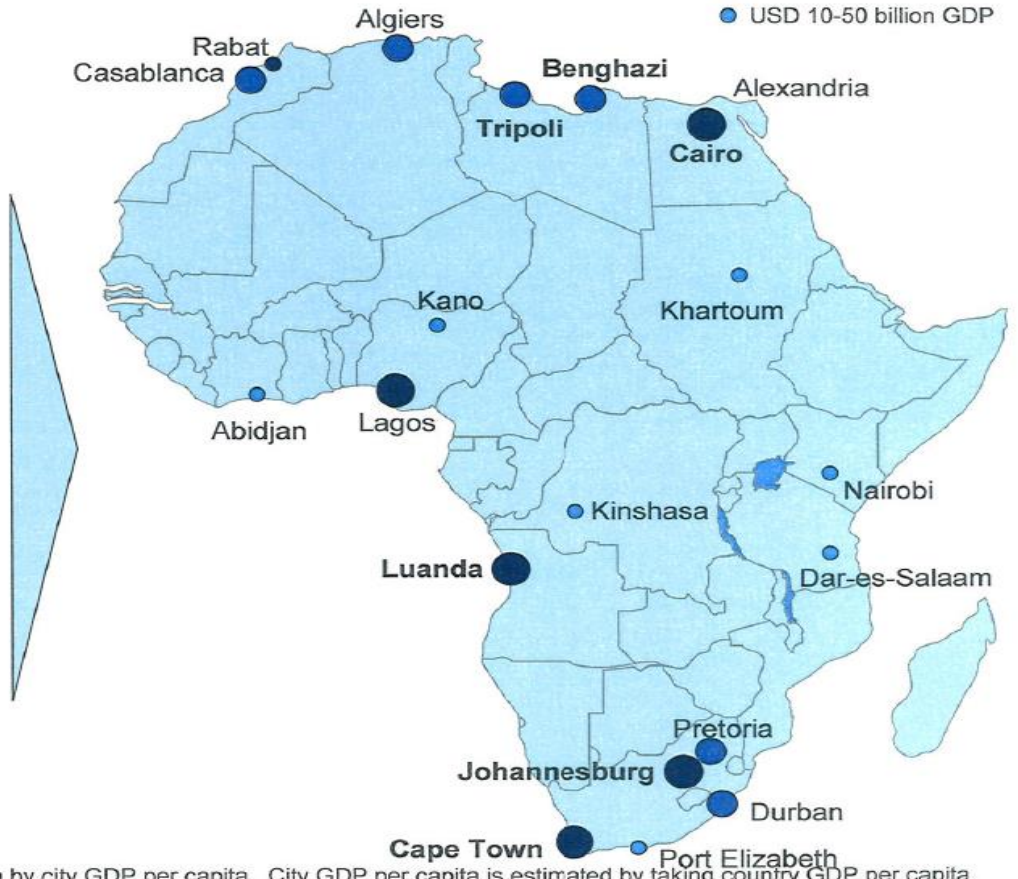
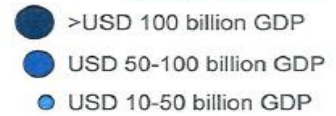
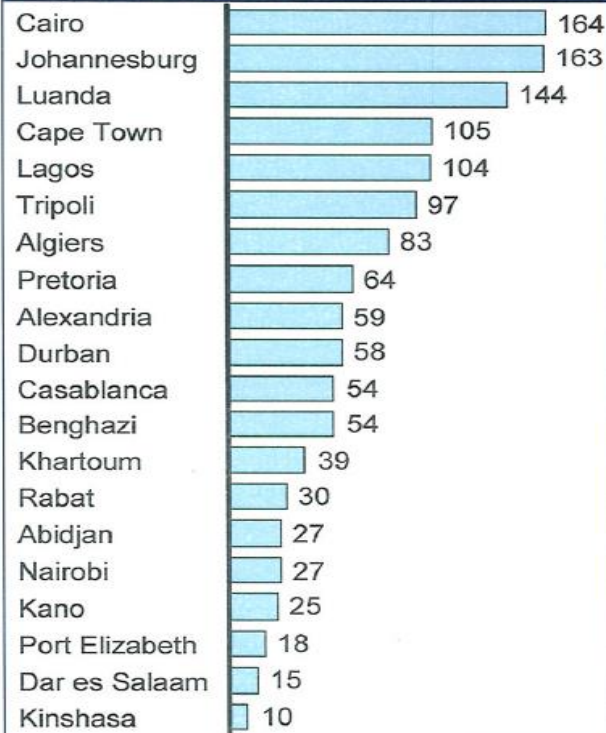
Source: Kai Krause, Public Domain/Creative Commons.



Cities Form the Core of African Growth...

By 2020, 18 African cities will hold a combined spending power of USD 1.3 trillion

Major African cities by GDP¹, 2020
Nominal, USD billions



¹ City-level GDP is estimated by multiplying city population by city GDP per capita. City GDP per capita is estimated by taking country GDP per capita, and applying an adjustment to take into account city: rural wage differences.

Source: United Nations; McKinsey Global Institute.



Africa's Infrastructure Coverage is Lagging

Normalized units	Sub-Saharan Africa low-income countries	Other low-income countries
Paved-road density	31	134
Total road density	137	211
Main-line density	10	78
Mobile density	55	76
Internet density	2	3
Generation capacity	37	326
Electricity coverage	16	41
Improved water	60	72
Improved sanitation	34	51

Source: Yepes, Pierce and Foster (2008)

Note: Road density is measured in kilometers per 100 square kilometers of arable land; telephone density in lines per thousand population; generation capacity in megawatts per million population; electricity, water, and sanitation coverage in percentage of population.



A Large Share of Africa's Infrastructure is Domestically Financed

Table 0.4 Infrastructure Spending on Addressing Sub-Saharan Africa's Infrastructure Needs

\$ billions annually

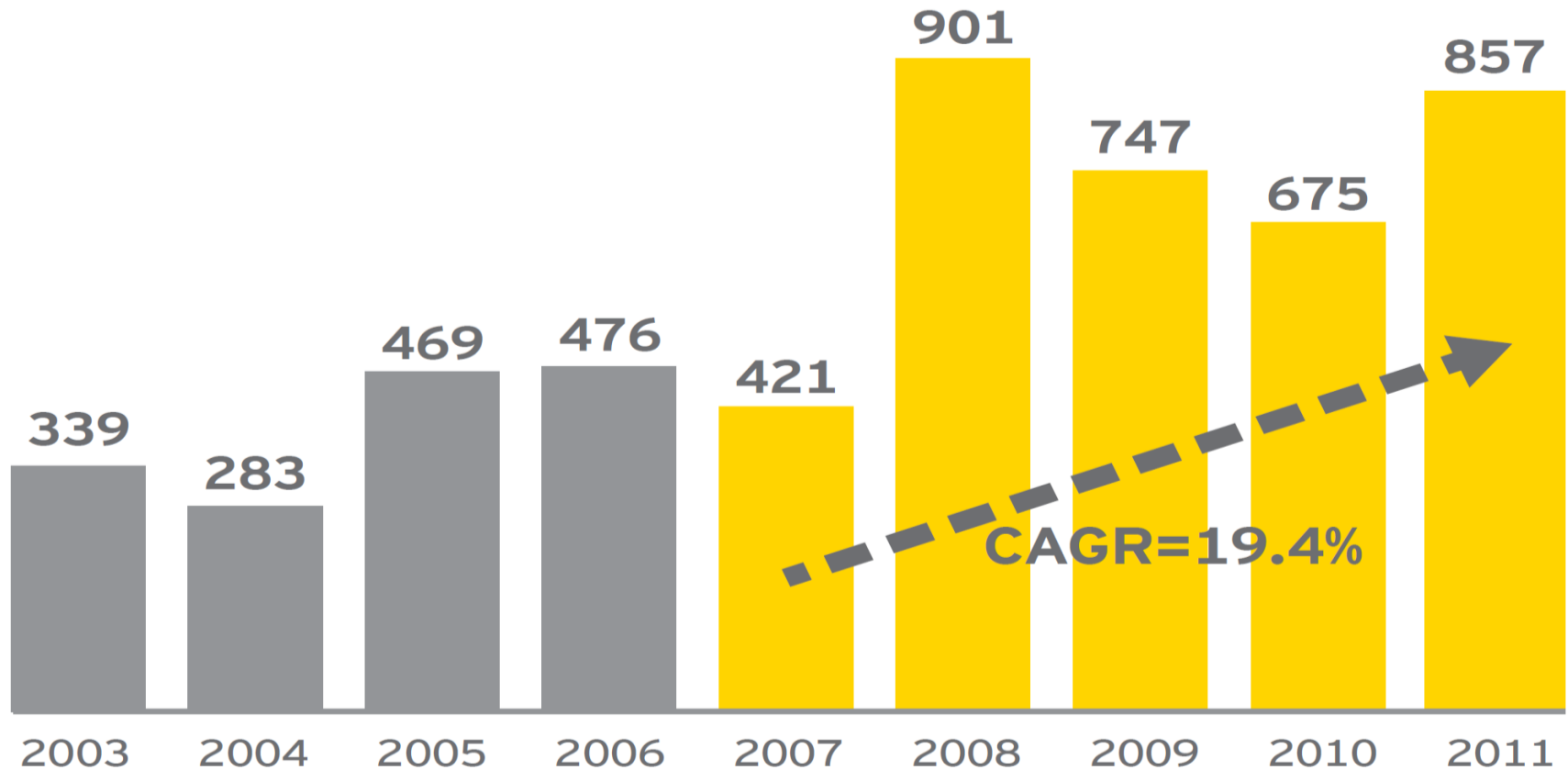
Infrastructure sector	Operation and maintenance		Capital expenditure				Total spending
	Public sector	Public sector	ODA	Non-OECD financiers	Private sector	Total	
ICT	2.0	1.3	0.0	0.0	5.7	7.0	9.0
Power	7.0	2.4	0.7	1.1	0.5	4.6	11.6
Transport	7.8	4.5	1.8	1.1	1.1	8.4	16.2
WSS	3.1	1.1	1.2	0.2	2.1	4.6	7.6
Irrigation	0.6	0.3	—	—	—	0.3	0.9
Total	20.4	9.4	3.6	2.5	9.4	24.9	45.3

Source: Briceno-Garmendia, Smits, and Foster (2008)

Note: Based on annualized averages for 2001–06. Averages weighted by country GDP. Figures are extrapolations based on the 24-country sample covered in AICD Phase 1. Totals may not add exactly because of rounding errors. ICT = information and communication technology; ODA = official development assistance; OECD = Organisation for Economic Co-operation and Development; WSS = water supply and sanitation. — Not available.

FDI is Driven by Project Finance and...

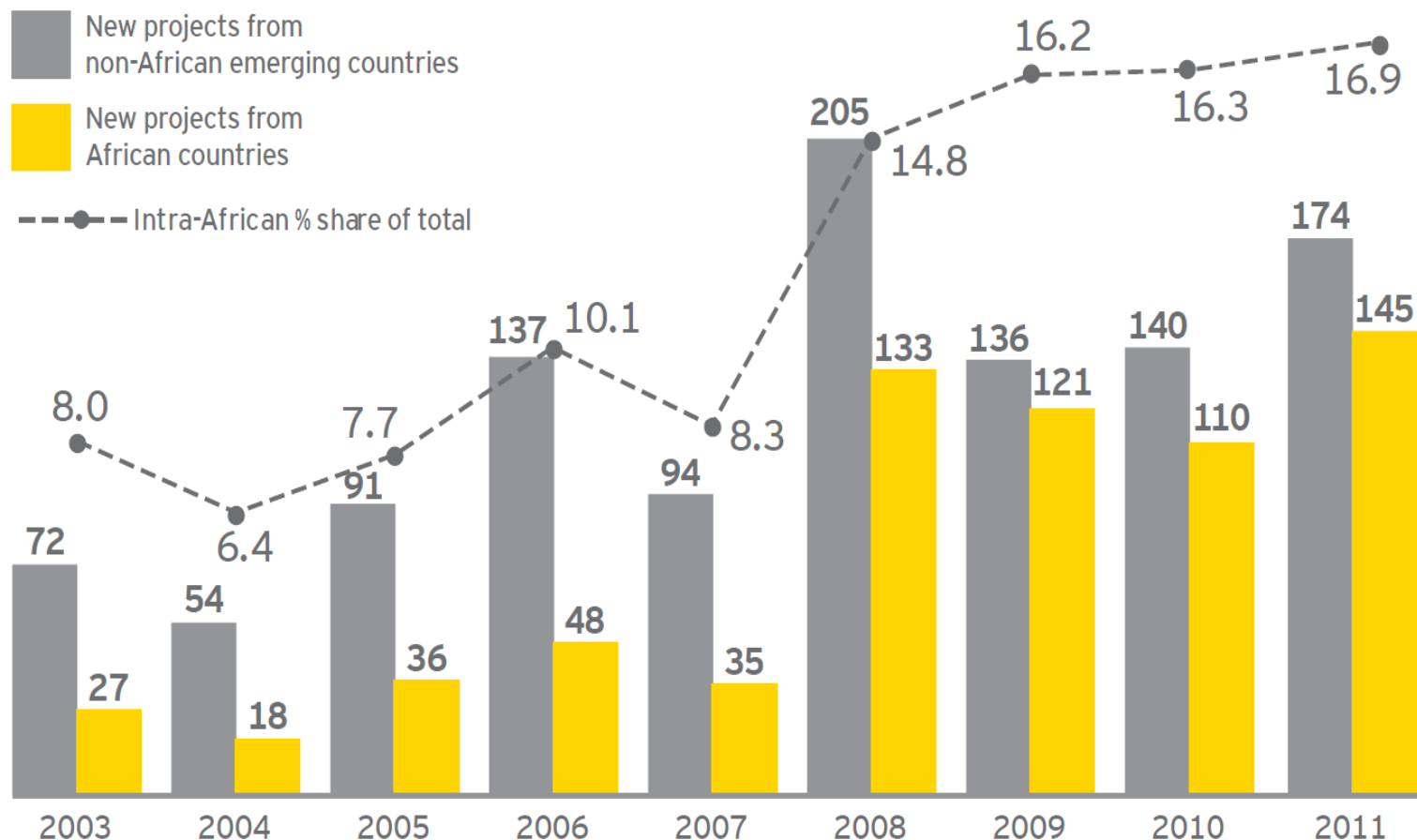
Africa's total FDI by projects



Source: FDI Intelligence, data as of 3 February 2012; Ernst & Young.

...Intra-African FDI Has Taken off at Last

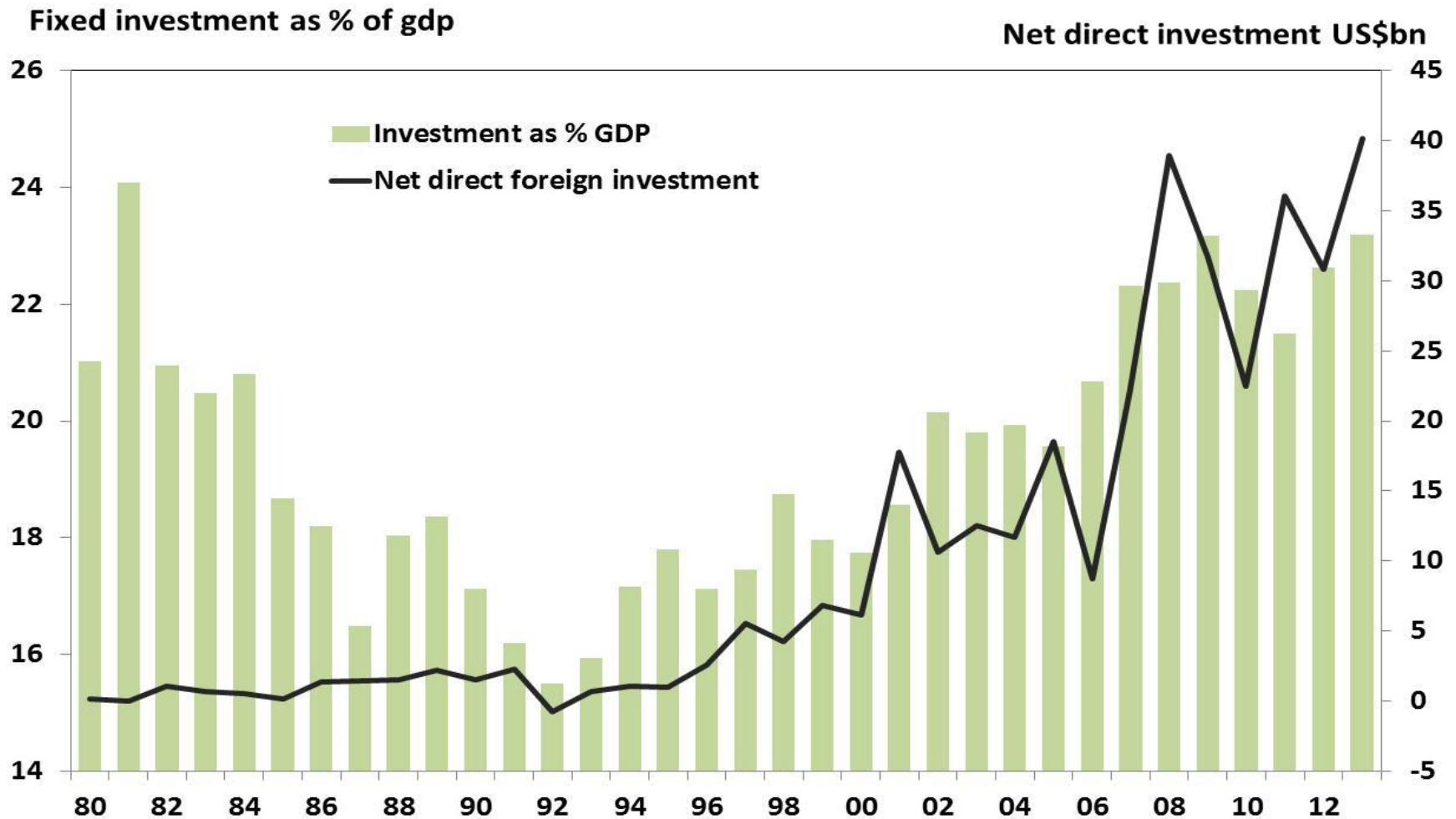
Intra-African FDI has grown at a compound rate of 42% since 2007



Source: FDI Intelligence, data as of 3 February 2012; Ernst & Young.



Africa's FDI has been on the rise...



Source: .





Current Drivers of Growth and Key Trends

Drivers of Growth & Key Trends...

1. Africa's mineral wealth is its key and foremost endowment. Also, its "curse"!
2. Available and inexpensive arable land gives Africa its global strategic significance as regards food production.
3. Discovery of oil and gas reserves along the African east and west coasts has created an investment boom in 'mega projects'.

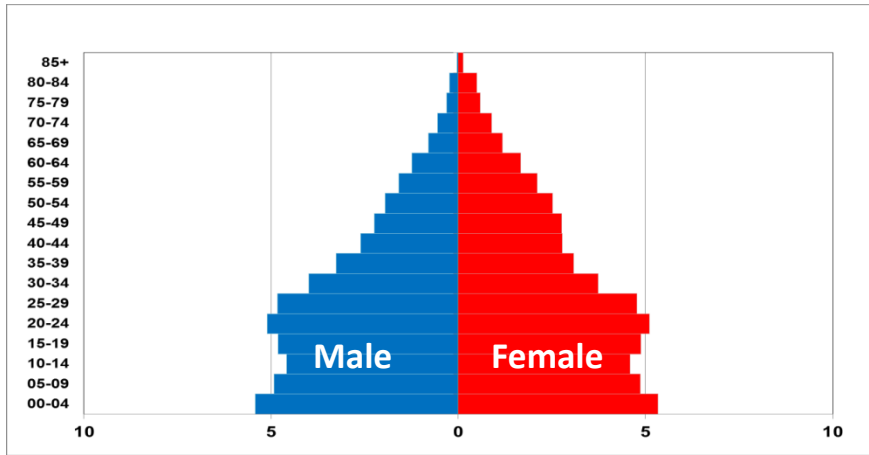


Drivers of Growth & Key Trends...

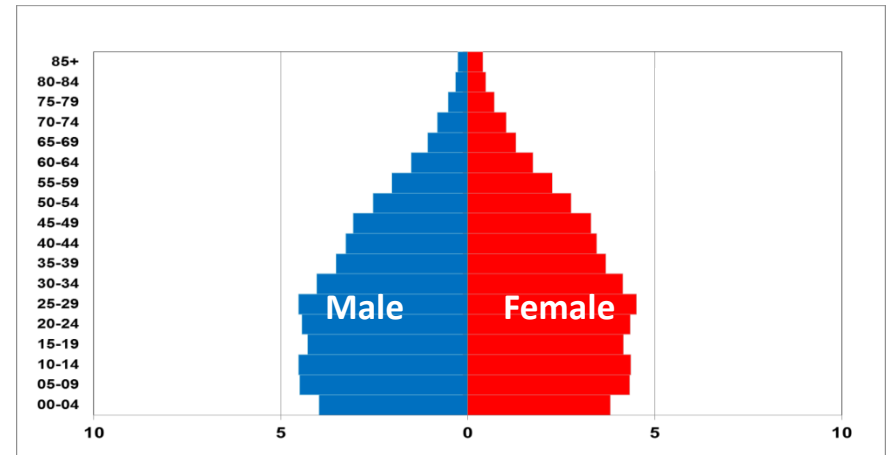
4. In the medium term, clean energy sources will give Africa its manufacturing advantage.
5. Growing consumer market, within a one billion population, is a rising driver of short term growth.
6. Technology and rising productivity provide opportunities for output “leapfrogging” !
7. Private sector funding is the main source of finance.



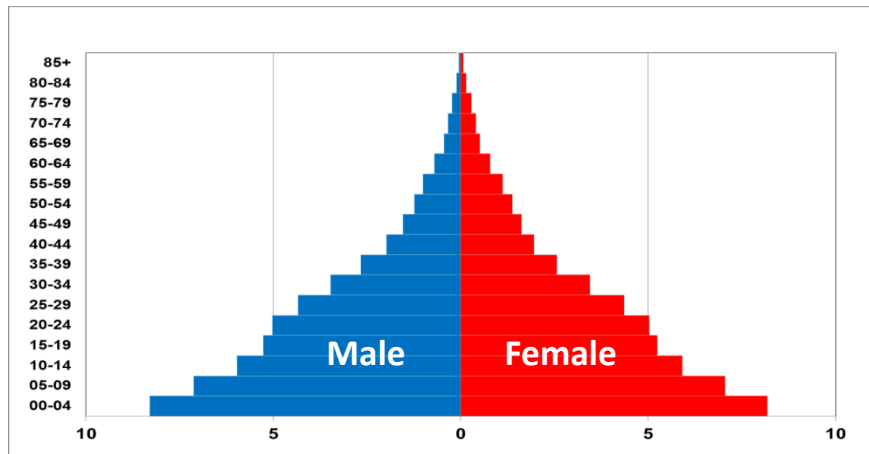
Africa's Demographic Favourable...



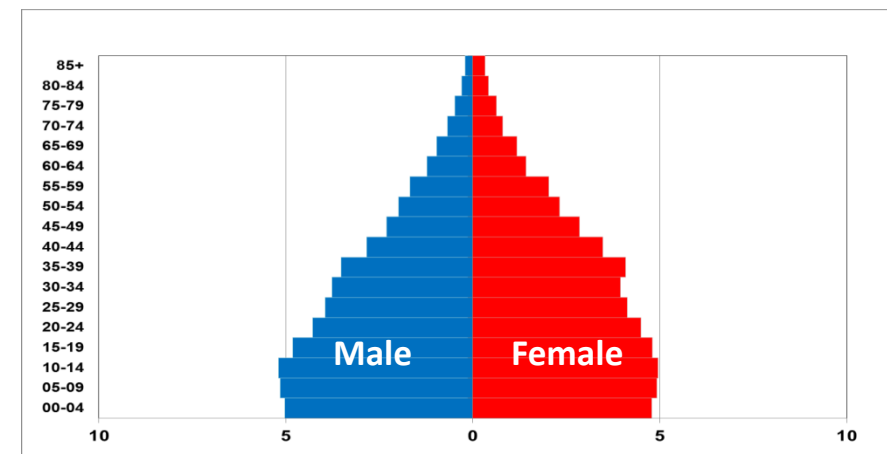
South Africa: Age Cohorts as a percentage of total population



Brazil: Age Cohorts as a percentage of total population



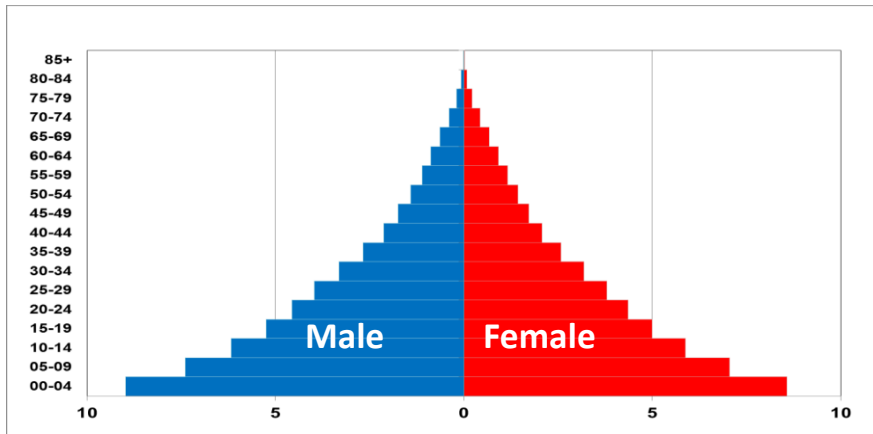
Kenya: Age Cohorts as a percentage of total population



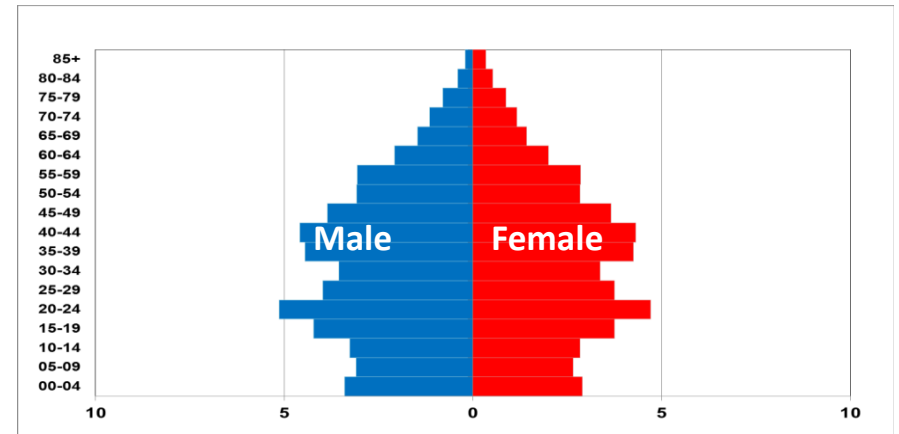
Mexico: Age Cohorts as a percentage of total population



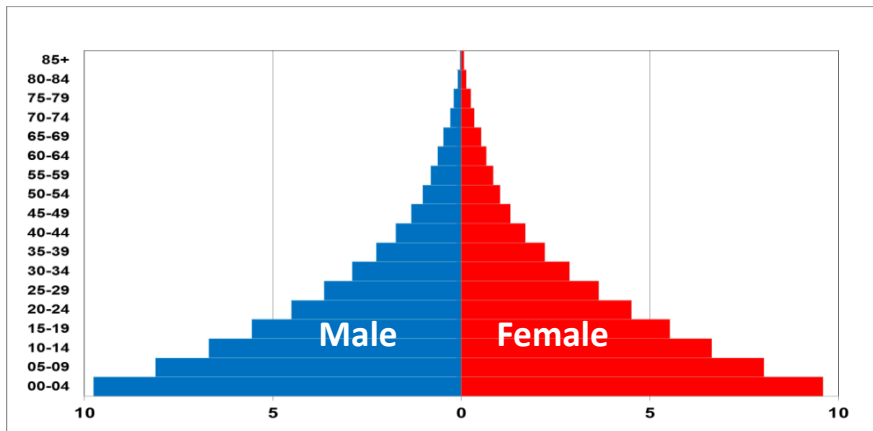
Africa's Demographic Favourable...



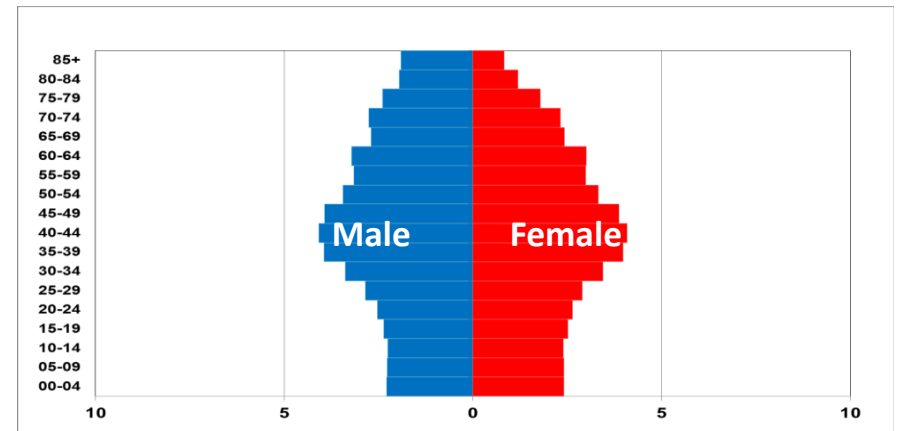
Nigeria: Age Cohorts as a percentage of total population



China: Age Cohorts as a percentage of total population



Uganda: Age Cohorts as a percentage of total population



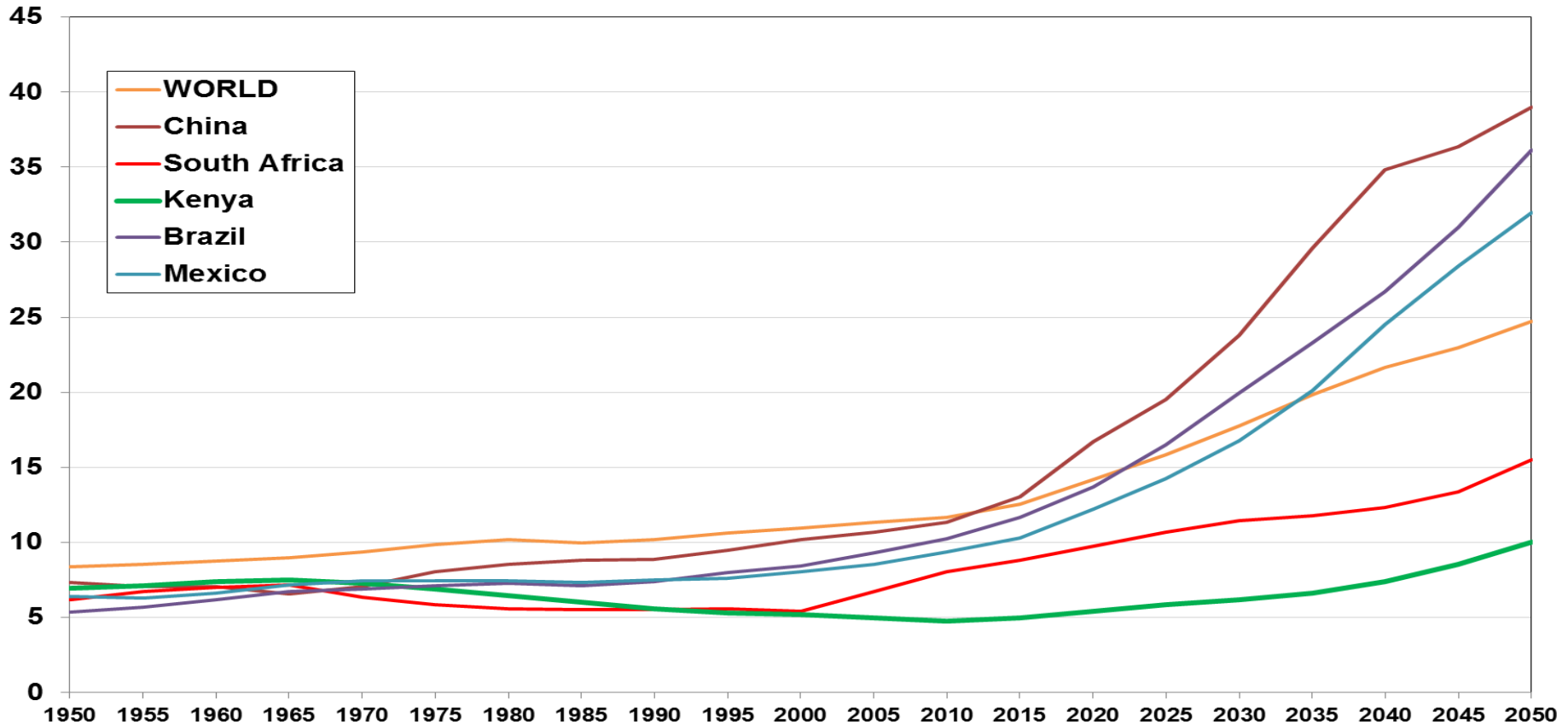
Italy: Age Cohorts as a percentage of total population

Source: .



Africa's Old-age Dependency Ratio Remains low...

Old-age dependency ratio (ratio of population aged 65+ per 100 population 15-64)

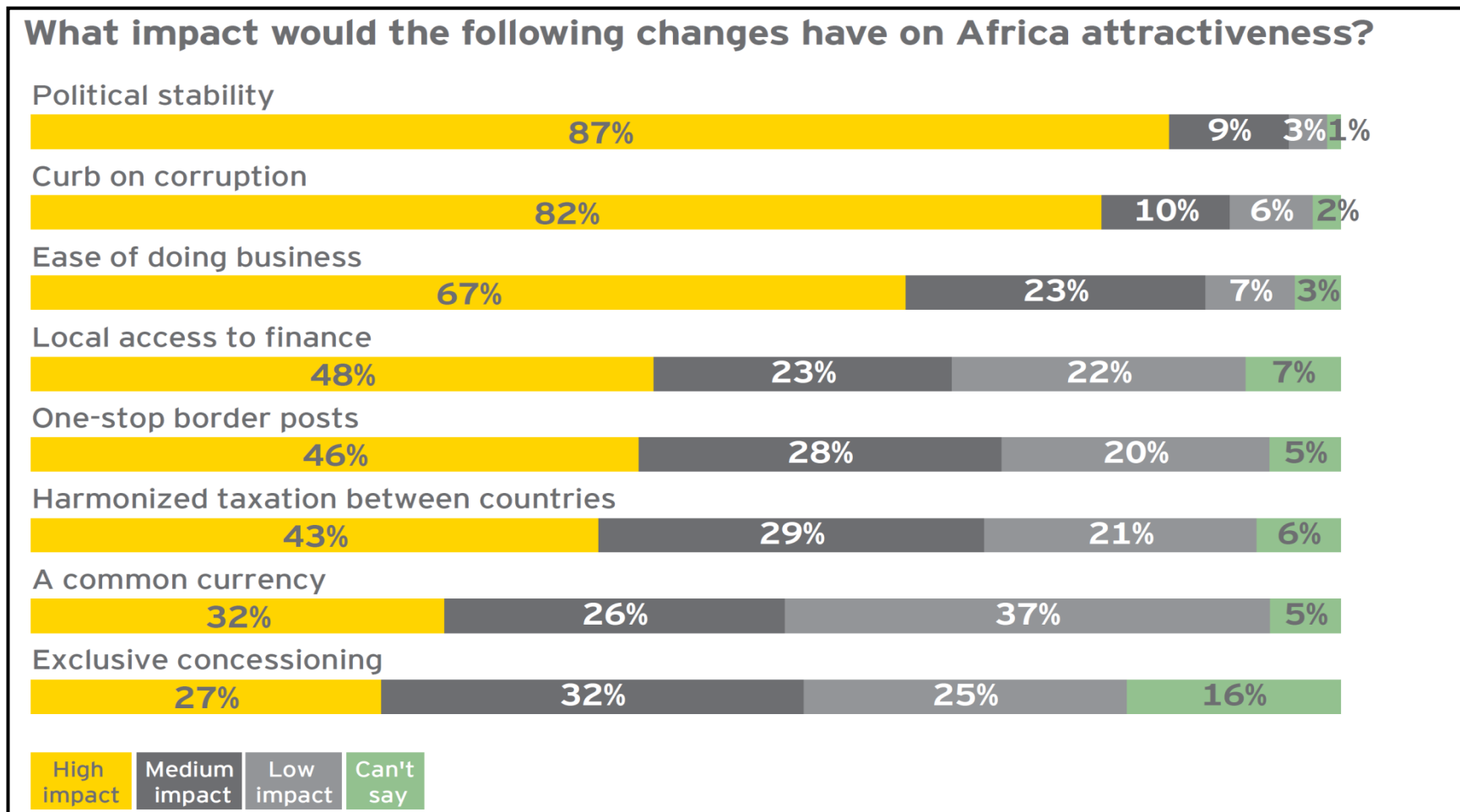


Source: .



Challenges and Obstacles Ahead

Africa's Risk and Evolving Environment...

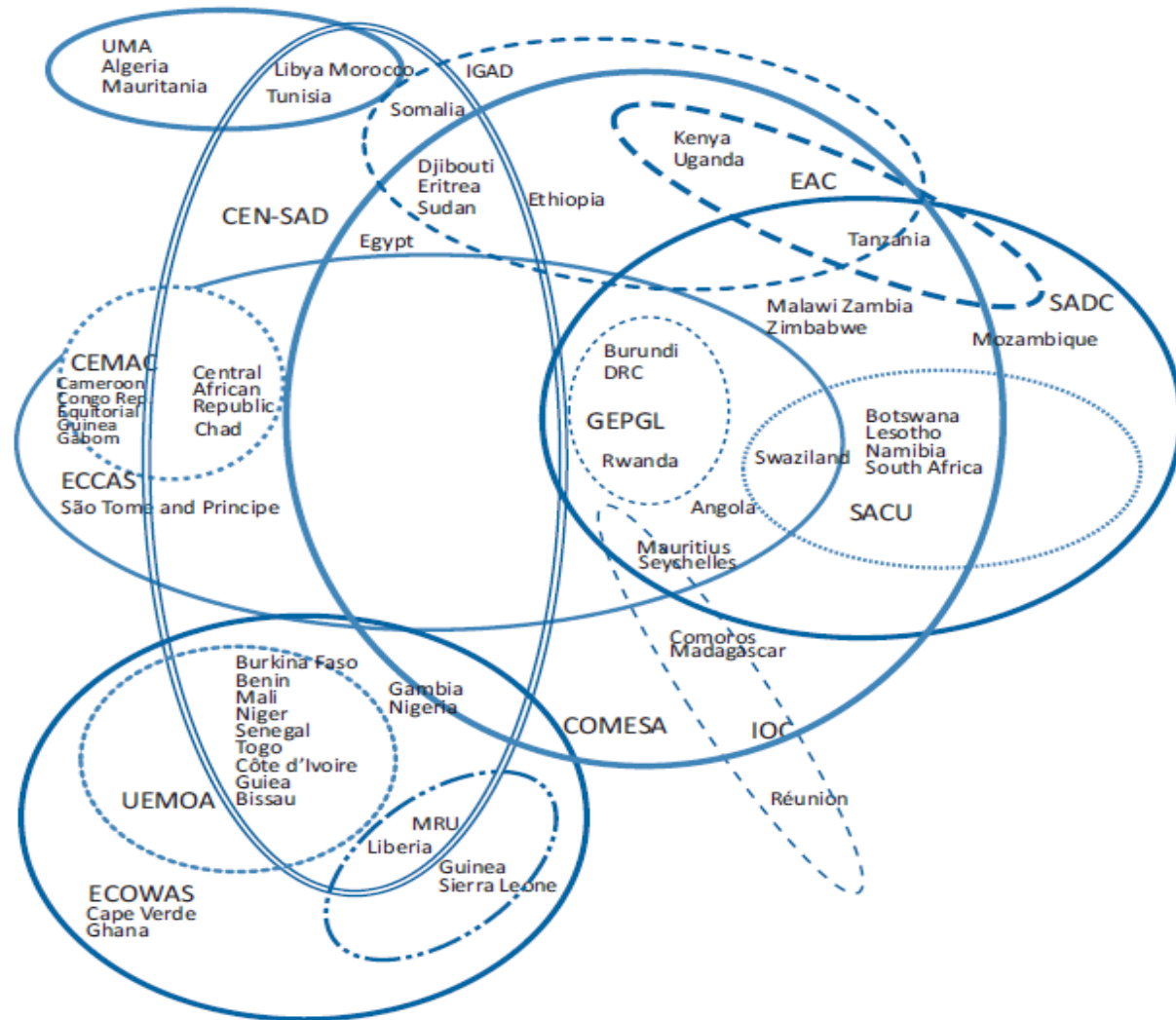


Source: Ernst & Young's 2012 Africa attractiveness survey. Total respondents: 505.



Regional trade agreements in Africa

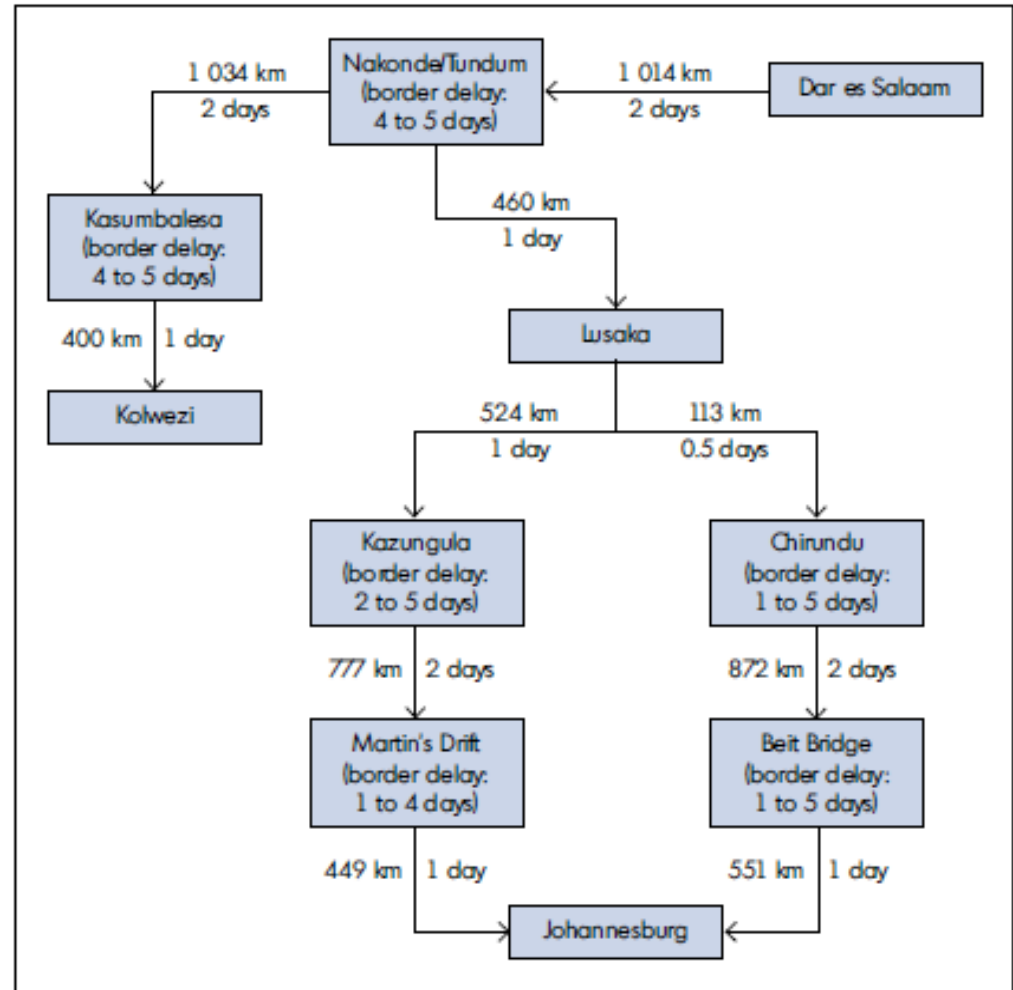
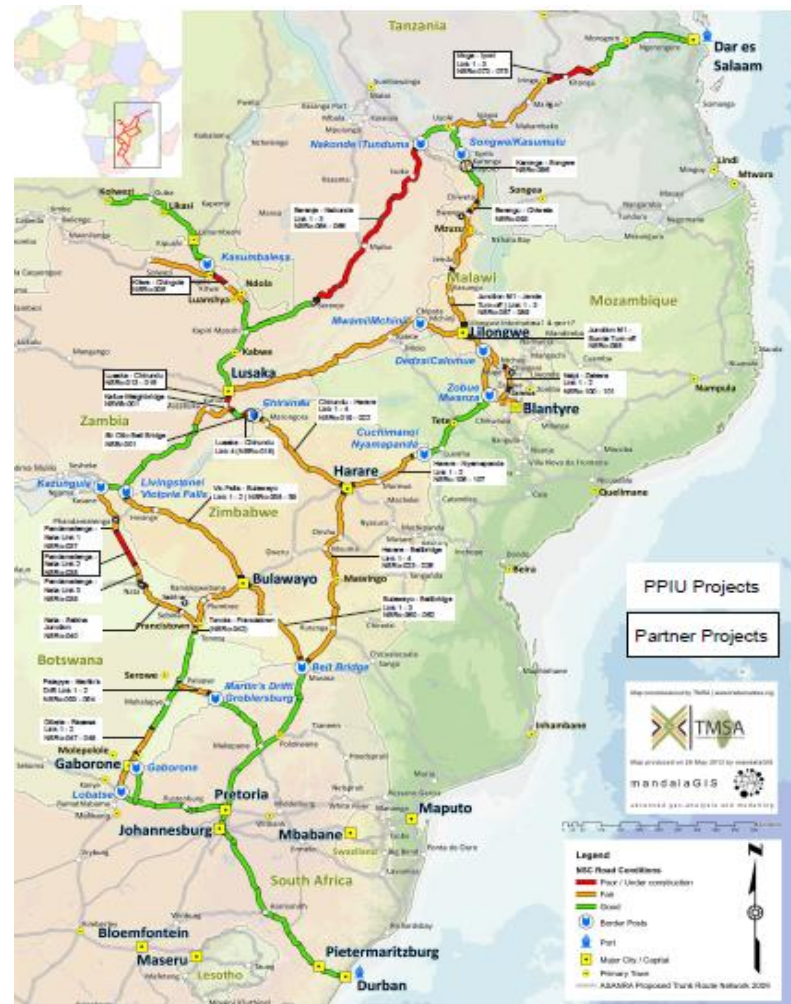
*Africa's
Regional
Integration
Policy Needs
Streamlining...*



Source: Economic Commission for Africa



A North-South Corridor along the east coast under consideration....



Source: TradeMark Southern Africa, North South Corridor Pilot Aid for Transport Programme: Surface Transport. Johannesburg: TradeMark Southern Africa, 2012; p. 17

Socio-political Forces at Play...

1. Africa has youthful population, restless, largely aware of possibilities, yet constrained by political and social structures.
2. Broadly speaking, Africa suffers from poor and unaccountable governance regimes.
3. The interplay of religious, tribal and partisan control over resources is challenging cocktail for political transformation.



Socio-political Forces at Play...

4. The colonial history has led to strong patriotic and nationalistic emotions. For some businesses, this is favourable.
5. Technological change has created, and will continue to generate, employment/skills problems.
6. In the immediate phase of Africa's development, local network will be critical.



Requirements of Success

1. The evolution of credible institutions and matching regulations in Africa is work in progress, especially in the capital markets.
2. Meanwhile, capital markets are facing real challenges in nearly all African countries, minus South Africa.
3. Hard and soft infrastructures need to be developed—some countries are leading the way.



Requirements of Success

4. Given the demographic dynamics, the education and skills are the key drivers of long term growth.
5. Focusing the political economy issues on clean governance and integration is a major challenge.
6. The promotion and application of PPPs is another requirement.
7. In most, if not all, these fields, legal firms have a key role to play.





Concluding Remarks

Concluding Remarks

1. Africa has a considerable infrastructure deficit, much of which requires synchronized and not sequential implementation.
2. Economic and business opportunities too offer great potential.
3. The scale of funding and skills required is out of reach of most, if not all, African states.



Concluding Remarks

4. PPPs offer a practical and effective option provided their requirements are put in place.
5. For the next 60 to 70 years, Africa will remain a region with highest return on capital.
6. Much like other regions, the progress will not be linear. Set backs are inevitable!



Thank you for your attention

Q&A

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Africa/Middle East Regional Meeting

CAPE TOWN, SOUTH AFRICA

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