Africa’s Investment Prospects Are Actually Brighter

Can the ‘North’ Exploit Africa’s First Mover Advantages?

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How to Assess Investing in Sub-Saharan Africa in the Post-Crisis Period

In judging the impacts of the crisis, critical to unbundle secular from cyclical economic trends.

Equally critical to unbundle crisis-induced secular versus cyclical institutional, policy and political changes.

Heightens even further the reality that Africa is a heterogeneous continent—not a single unit/country.
Secular Trend of Sub-Saharan Africa: An ‘Economically Transformed’ Continent

Prior to the global crisis, for the 1st time in 20 years SSA’s growth was not only high and rising, but in tandem with the rest of the world.
Secular Trend of Sub-Saharan Africa: A ‘Continent of Economic Misperceptions’

Most ‘Northern’ investors don’t know SSA has real economic success stories

Particularly true for a set of non-resource-dependent countries where 40% of Africans live: in those countries avg annual GDP grew at 5.6%
Sub-Saharan Africa’s ‘Economic Success Stories’ Are in ‘Unlikely’ Places

- Oil Dependent Countries
  - Annual avg real GDP growth: 7.7%
- Sustained Growing Countries
  - Annual avg real GDP growth: 5.6%
- Slow Growing Countries
  - Annual avg real GDP growth: 1.5%

Countries:
- **Equatorial**
  - Angola
  - Chad
  - Sudan
  - Nigeria
  - Cameroon
  - Congo, Rep.
  - Gabon
- **Liberia**
- **Mozambique**
- **Sierra Leone**
- **Rwanda**
- **Uganda**
- **Sao Tome**
- **Ethiopia**
- **Tanzania**
- **Cape Verde**
- **Mali**
- **Burkina Faso**
- **Botswana**
- **Ghana**
- **Gambia, The**
- **Mauritius**
- **Mauritania**
- **Namibia**
- **Senegal**
- **Niger**
- **Benin**
- **Zambia**
- **Madagascar**
- **Kenya**
- **Malawi**
- **South Africa**
- **Guinea**
- **Lesotho**
- **Swaziland**
- **Seychelles**
- **Burundi**
- **Congo, Dem.**
- **Comoros**
- **Central Togo**
- **Cote d'Ivoire**
- **Eritrea**
- **Guinea-Zimbabwe**
What Can Investors Learn from the ‘Stress Test’ Africa Just Underwent?

How Did the Global Crisis Impact Sub-Saharan Africa’s Growth?

For SSA as a whole:

- **2008**: GDP grew at 5.5%  
  *Advanced economies’ GDP grew at 0.5%*
- **2009**: GDP grew at 2.1%  
  *Advanced economies’ GDP contracted -3.2%*
- **2010**: GDP projected to rise 4.7%; 2011: 5.9%  
  *Twice as fast as Advanced Countries, but still below SSA’s 6.9% in 2007*
‘Stress Test’ Underscores Continent’s Heterogeneity

Vulnerabilities Were Not What Most Expected

<table>
<thead>
<tr>
<th>“Conventional” Taxonomy</th>
<th>2008</th>
<th>2009</th>
<th>2010(f)</th>
<th>2011(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Exporters</td>
<td>7.0%</td>
<td>3.8%</td>
<td>6.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>MICs</td>
<td>3.6%</td>
<td>-1.8%</td>
<td>-2.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>LICs</td>
<td>6.9%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Fragile States</td>
<td>3.1%</td>
<td>2.9%</td>
<td>3.7%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

Source: IMF

<table>
<thead>
<tr>
<th>Resource vs. Non-Resource Intensive; Coastal vs. Landlocked</th>
<th>2008</th>
<th>2009</th>
<th>2010(f)</th>
<th>2011(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Resource Intensive</td>
<td>7.0%</td>
<td>3.8%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Non-Oil Resource Intensive</td>
<td>3.6%</td>
<td>1.0%</td>
<td>4.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Coastal Non-Resource Intensive</td>
<td>4.1%</td>
<td>-0.2%</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Landlocked Non-Resource Intensive</td>
<td>8.5%</td>
<td>6.3%</td>
<td>5.7%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Source: IMF
What Have Been the Threats to Growth?

Fall off in foreign investment – FDI and FPI
   FDI climbed to $33bn in 2008; declined to $23bn in 2009 (30% decrease)

Unraveling discipline on fiscal and current account balances
   2005-2008, SSA had fiscal surplus; in deficit by 2.1% of GDP in 2009

Decline in workers’ remittances
   Amounted to $20bn in 2008, 2/3 of FDI; declined by 3% in 2009 (less than thought)

Reversing gains in poverty reduction and worsening those who were never made better off
   Rising food prices have threatened food security
Africa is “More Resilient than Meets the Eye”

Almost all observers underestimated Africa would weather the crisis better than any other region of the world.

What accounts for the resilience?

A solid foundation of economic performance—*not due to luck*—rather the result of:

- Willingness to confront difficult policy choices
- The bearing of transition costs from market reform
- Deft skill by macroeconomic policy makers
What Secular Policies Helped Make Many African Countries Resilient?

- Reduction of wasteful spending and public finance reforms
- Investment in education and health systems
- Reforms of utilities
- Privatization of SOEs
- Reform of trade policies (WTO Membership)
- Introducing flexibility into interest rates and exchange rates
Some Significant Improvements in Governance…

Most countries have multi-party political systems

Regularly scheduled parliamentary/presidential elections—although with varying degrees of openness/credibility

Results are disputed; political change not always easy, but elections have changed leaderships

More representative parliaments counterbalancing executive power, exercising oversight and accountability

Enhanced press freedom expanding public access to information and disseminating diverse opinions
…But Major Political Economy Challenges Remain

World Bank rates SSA’s governance performance worse than other regions, *but new initiatives have been launched*

16 of the 23 EITI candidate countries are in Africa

SSA a comparatively high cost place to do business—*but improving rapidly*

Several of the top 10 worldwide reforming countries of WB *Doing Business* rankings often are in Africa

African markets uncompetitively structured: breeds discretionary behavior (typical market shares of firms are 30\%-50\%)

This becomes an investment opportunity—*if* new entrants can compete with new “incumbents” from the South
How Competitive are African Firms?

Factory floor costs in some African firms compare well with those in China and India

Source: Benn, Gelb and Ramachandran (2005)
Biggest Constraint on Competitive African Firms in Global Export Markets is Lack of Infrastructure

Especially reliable electric power

![Bar chart showing access to electricity (% of population) for different regions. Sub-Saharan Africa has 24.7%, South Asia has 40.8%, East Asia & Pacific has 86.6%, Latin America & Caribbean has 87.3%, and Middle East & North Africa has 90.4%.]
So... Where Are the Ripest Opportunities for Investors in Africa?

- On average only ¼ of Africans have access to electricity

- Huge investment needs:
  - $20b/year
  - O&M: $17b/year
  - ODA only $5-6b

- Who will fill this gap?
  - China, India, etc.
  - The “North”?
How Should ‘Northern’ Investors View Africa?

Unlike two decades ago, today, an increasing portion of Sub Saharan Africa has significant opportunities for very profitable investments, even on a risk-adjusted basis.

Yes, some, maybe much, of Africa is a risky investment environment.

- But no more risky than parts of the CIS or LATAM.

Indeed, why Africa has become the continent of ‘Economic Misperceptions’
How Should ‘Northern’ Investors View Africa?

But if the investment risks in Africa are high, so too are the rewards.

Unlike virtually any other region of the world, SSA is one location where many ‘first mover’ investment advantages can still be found.

In Africa, the most-successful, profitable ventures are those that: (i) exploit the misperceptions, (ii) find the ‘diamonds-in-the-rough’, and (iii) employ effective risk-mitigation strategies.
What Should be the Response of ‘Northern’ Investors?

Many press reports about China & India in Africa investing in oil/minerals

   Epitomizes acceleration of fundamental long-run trend of South-South commerce

But less known is that these South-South investments in Africa are going beyond oil:

   into infrastructure; power; telecom; financial services; back-office; water; waste; tourism; manufacturing....
Also less known: Southern MNCs create more value-added on the continent than African firms

…and facilitate African firms’ entry into global network trade

13% of African firms’ global exports remain in raw form, whereas 100% and 75% of the global exports from Indian and Chinese firms operating on the continent, respectively, have been fully processed

<table>
<thead>
<tr>
<th>Firm Nationality</th>
<th>African</th>
<th>Chinese</th>
<th>Indian</th>
<th>European</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished Assembled</td>
<td>88%</td>
<td>90%</td>
<td>90%</td>
<td>89%</td>
</tr>
<tr>
<td>Partially Finished</td>
<td>5%</td>
<td>9%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Raw Material</td>
<td>6%</td>
<td>0%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Sales to Other African Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished Assembled</td>
<td>83%</td>
<td>89%</td>
<td>100%</td>
<td>78%</td>
</tr>
<tr>
<td>Partially Finished</td>
<td>8%</td>
<td>11%</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Raw Material</td>
<td>9%</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>Export Sales Outside of Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished Assembled</td>
<td>77%</td>
<td>75%</td>
<td>100%</td>
<td>90%</td>
</tr>
<tr>
<td>Partially Finished</td>
<td>10%</td>
<td>25%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Raw Material</td>
<td>13%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Broadman _Africa's Silk Road (2007)_
Firms from the ‘South’ Also Engage in Greater Pan-African (Regional) Integration than African Firms

8% of African firms’ locally produced output is sold in other African markets, whereas 14% and 10% of locally produced output is sold in other African markets by Chinese and Indian firms operating on the continent, respectively.

<table>
<thead>
<tr>
<th>Destination Market</th>
<th>African</th>
<th>Chinese</th>
<th>Indian</th>
<th>European</th>
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</thead>
<tbody>
<tr>
<td>Local Market</td>
<td>85%</td>
<td>78%</td>
<td>89%</td>
<td>76%</td>
</tr>
<tr>
<td>Other Africa</td>
<td>8%</td>
<td>14%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Europe</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>North America</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>India</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other South Asia</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>China</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: Broadman, Africa’s Silk Road (2007)*

Distribution of Output Sales by Destination Market and Nationality
Closing Thoughts

‘First Mover Advantages’: implications for Northern firms investing in African countries versus BRICs

Win-Win nature of private investment in Africa: social, labor, climbing the value chain

Risk-minimization strategies: local partners; export diversification

North-South vs. South-South: How large is the Chinese/Indian competitive “threat” on the African continent? What are the comparative advantages and disadvantages: technology/skills/management transfer—that the North brings

While Northern firms are beginning to increase FDI in Africa, they may lose ‘first mover’ advantages if they do not act quickly