Doing Business in Africa: Energy, Oil, Gas, Machinery and Engineering

Bhavik Jayendrakumar Shah
Co-Founder, Director of the Niveda Group
BSc (Econ) LSE, (HSS) Harvard
Key Sources of Information

- World Bank
- IMF
- CIA World Factbook
- UN Conference on Trade & Development (UNCTAD)
- African Development Bank
- Momentum Investments Africa
- McKinsey & Co
- Knight Frank
Kenya recorded a real GDP growth of 4.7% in 2012. This met expectations of the United Nations forecast for that year. The IMF expect real GDP growth for Kenya to increase and reach 6.1% by 2018.
Output Growth in the Service Sectors of Kenya

Source: KNBS Statistical Release GDP First Quarter 2013
• Kenya’s GDP per capita (current $) was $862.2 in 2012
• Kenya’s GDP per capita (PPP) is estimated to be $1,802 in 2012 and $1,885 in 2013
• A Kenyan consumes 2% on housing and majority on food
Main reasons include high percentage of fertile women which has given rise to a positive net death to birth ratio. Nevertheless, it is predicted that the rate will slow down by 2100 when which the population of these Sub-Saharan Africans countries will have doubled.

An increase in population will expand the consumer spending reach as well as open up different investment opportunities in the reality sector.
From 2010 to 2050, Kenya’s working population is going to increase by 7%, the children population will reduce by 10% and the over-65 will increase by 3%.

Kenya is undergoing a demographic transition since death rates and birth rates have reduced. Consequently, this has led to an increase in life expectancy rates and working population, but a decrease in population growth rates.
Political Stability in Africa
Water

Sub-standard water: households without access to piped water, public tap or a well of any kind

1999

2009

Percent change between 1999 and 2009

Percent (%)

- [0,25)
- [25,50)
- [50,75)
- [75,100]

Percent (%)

- [0,25)
- [25,50)
- [50,75)
- [75,100]

Percent (%)

- [-100,-50)
- [-50,-2.5)
- [-2.5,2.5)
- [2.5,50)
- [50,100]
Sanitation

Sub-standard sanitation: The percentage of households without a flush toilet or pit latrine of any kind

1999

2009

Percent change between 1999 and 2009

Percent (%)

- [0, 25]
- (25, 50)
- (50, 75)
- [50, 75]
- (75, 100]
Currently, 57% of Kenya’s power is hydropower.

In Kenya, 84% of the population do not have access to electricity.

In 2012, oil was discovered in Kenya and has already begun to position itself to develop facilities for exports of oil from the region.
Electricity

Sub-standard energy: The percentage of households without access to electricity

1999

2009

Percent change between 1999 and 2009

Percent (%)
- [0,25]
- [25,50]
- [50,75]
- [75,100]
• BRICs have 3.5X greater road density than Kenya
• Improvement of the Northern corridor which connects the port of Mombasa to Nairobi, Uganda, Rwanda, Burundi and the Democratic Republic of Congo
• Construction of the Nairobi-Thika multi-lane highway
• Development of a new highway linking the port of Lamu to South Sudan and Ethiopia.
This is not surprising as Kenya’s rail network was built a century ago which extends from Mombasa to Tororo (Ugandan border) via Nairobi.

On this route, Kenya only handles a third of its capacity (7 million tons of cargo) and most goes by road whereby only 6% goes by rail.

In 2005, the concession of the Kenyan and Ugandan railways to Rift Valley Railways for 25 years was beneficial as an investment of $165 million is planned (check if it is done).

A standard Gauge railway line to link Kenya and Uganda is to be constructed.
Ports

<table>
<thead>
<tr>
<th>Country</th>
<th>Documents to Export</th>
<th>Time to Export (Days)</th>
<th>Cost to Export (US $ per Container)</th>
<th>Documents to Import</th>
<th>Time to Import (Days)</th>
<th>Cost to Import (US $ per Container)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>6</td>
<td>21</td>
<td>923</td>
<td>7</td>
<td>22</td>
<td>958</td>
</tr>
<tr>
<td>North Africa</td>
<td>6</td>
<td>19</td>
<td>1083</td>
<td>8</td>
<td>22</td>
<td>1275</td>
</tr>
<tr>
<td>OECD</td>
<td>4</td>
<td>10</td>
<td>1028</td>
<td>5</td>
<td>10</td>
<td>1080</td>
</tr>
<tr>
<td>Egypt</td>
<td>8</td>
<td>12</td>
<td>623</td>
<td>9</td>
<td>13</td>
<td>755</td>
</tr>
<tr>
<td>Kenya</td>
<td>8</td>
<td>26</td>
<td>2255</td>
<td>7</td>
<td>26</td>
<td>2350</td>
</tr>
<tr>
<td>Zambia</td>
<td>6</td>
<td>44</td>
<td>2765</td>
<td>8</td>
<td>N/A</td>
<td>3560</td>
</tr>
</tbody>
</table>

- In 2010, Mombasa port handled 19 million tonnes of cargo
- To export a container, it costs $1332 more than East Asia and Pacific making Kenya less internationally competitive
- To import a good, it costs $1392 more than East Asia and Pacific making inputs more expensive and difficult for businesses to gain economies of scale
- Due to high inefficiencies, another new port will be built in Mombasa
- Kenya has four international airports and four domestic airports.

- Jomo Kenyatta Airport which is a major hub in East Africa handles 17,000 passengers a day.

- Jomo Kenyatta will be constructing a second runway and a new passenger terminal.

- Kenya is a regional leader in air transportation - Kenya Airways is one of Africa’s top three international carriers, with an extensive network across the continent and a safety record up to international standards.
• Kenya’s inward inflow of FDI has increased by 180.9% from 2000 to 2011.
• However, it is imperative that Kenya attracts more FDI since in 2011 Tanzania’s inflow of FDI was 254.5% greater than Kenya’s.
• FDI inflows are expected to increase from infrastructure projects and by implementing a PPP bill which aims to attract $40 billion in infrastructure finance.
Constraints and Risks to Foreign Direct Investment into Africa

1. Political Instability
2. Legal Systems
3. Regulation
4. Corruption
5. Insecurity
6. Lack of Infrastructure
7. High Costs of Production
The government has implemented an ambitious programme containing the strategy to transform Kenya into a middle-income country by 2030. This vision is based on the following three pillars: Economic, Social, and Political.
The Vision

“We ask for a Kenya where our rights and freedom are protected, where we are ruled by democracy. We all want a Kenya that is able to adequately feed itself, the world and give jobs to its citizens. We all want a Kenya with a good network of roads that will enhance business within our country. We all want a Kenya flooded with tourists enjoying the beauty of our country and creating employment for us. We all want a Kenya that is capable of bringing in more business and employing more Kenyans. We all want a Kenya where our children are educated by well trained teachers who will help them realize their potential. We all want a Kenya where all Kenyans can afford to go to well-equipped hospitals and get treated by qualified doctors. We all want a Kenya that is advanced in technology, where other countries look up to us for technology solutions.”