

EAST-WEST BUSINESS FORUM 2013

EMERGING AFRICA

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Agenda

1. Where do we come from ?
2. Where is Africa today ?
3. Africa growth
4. Capital Flows
5. Trade Finance
6. Infrastructure Financing
7. SME
8. Frontiers Markets / Private Equity
9. Challenges and opportunities
10. The African Development Bank

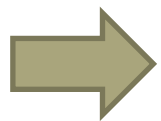
1. Where do we come from ?

❖ **Africa before the global crisis**

- High growth averaging 5.7% per annum during 2001-2008
- Declining poverty rate since 1990s

❖ **Impact of the Crisis**

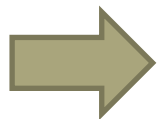
- Declining trade flows
- Declining capital inflows (declining FDI but sustained ODA support)
- Deteriorating foreign exchange reserves and deterioration of current account (superavit of 3.8% in 2008 to deficit of 2.9% in 2009)
- Deteriorating fiscal positions (from superavit of 2.2% in 2008 to deficit of 4.4 in 2009)
- Large financing gaps for growth drivers



However, Africa has shown an extraordinary resilience to the global crisis (GDP growth at 4.9% in 2010, 5.5% in 2011, 6.6% in 2012 and projected 4.8% in 2013)

2. Where is Africa today ?

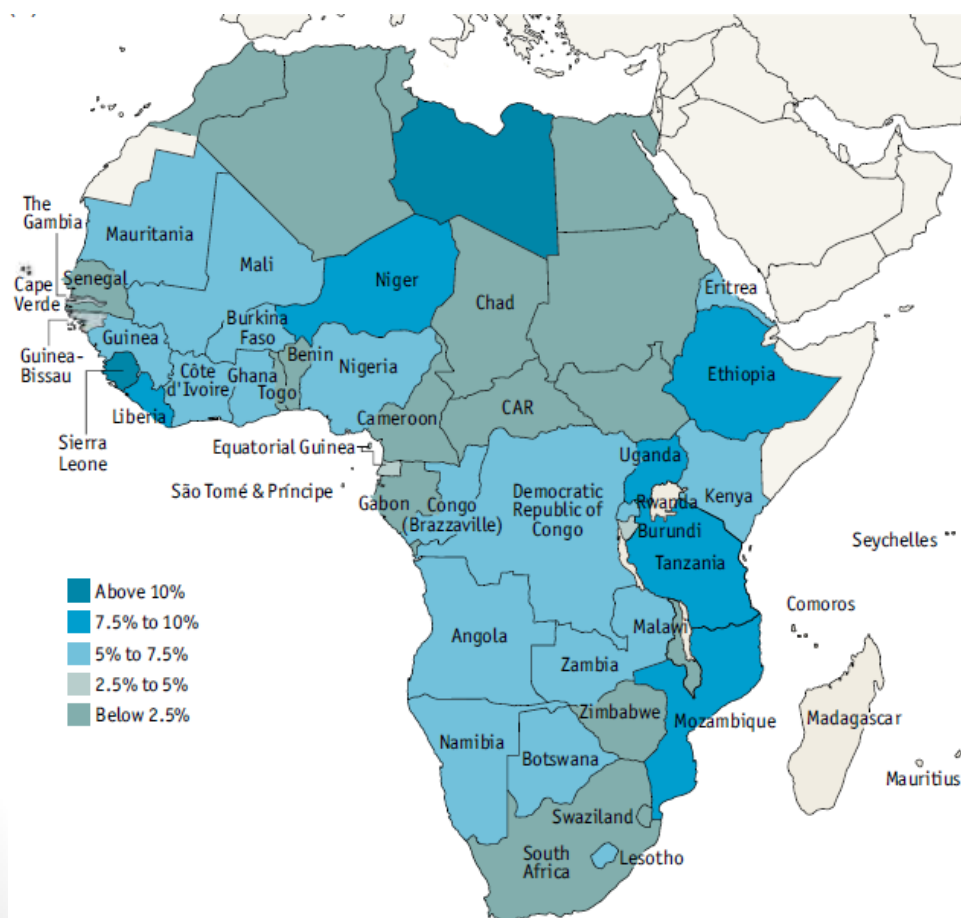
- ❖ Difference dynamics affecting the classification of countries
- ❖ Africa's GDP growth in terms of PPP higher and lower than BRICS
- ❖ 6 African countries were among the world's 10 fastest growing economies in the past decade, and seven 7 African countries are expected to be among the 10 fastest-growing countries over the next 5 years, alongside China, India and Vietnam (IMF).
- ❖ Improved governance and transparency



But fragility remains: in 1990 only a sixth of the world's poor lived in Africa. Today the figure is more than half, and potentially rising to five-sixths by 2025 (AfDB).

2. Where is Africa today ?

Africa CDP growth in perspective 2001-2010 and 2011-2015



| | 2001 – 2010 | | 2011 – 2015(p) |
|------------|-------------|------------|----------------|
| Angola | 11.1 | China | 9.5 |
| China | 10.5 | India | 8.2 |
| Myanmar | 10.3 | Ethiopia | 8.1 |
| Nigeria | 8.9 | Mozambique | 7.7 |
| Ethiopia | 8.4 | Tanzania | 7.2 |
| Kazakhstan | 8.2 | Vietnam | 7.2 |
| Chad | 7.9 | Congo | 7.0 |
| Mozambique | 7.9 | Ghana | 7.0 |
| Cambodia | 7.7 | Zambia | 6.9 |
| Rwanda | 7.6 | Nigeria | 6.8 |

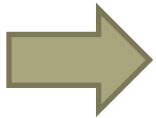
Source: IMF

3. Africa's growth

- ❖ Eleven countries in Africa are the top ten global resource countries in at least one major mineral; and
oil production has grown more rapidly in Africa than in any other region. Gas has increased more rapidly in Africa than any other country except Middle East ... but

Africa has a large share of very small farms

Sub-Saharan Africa has become a substantial player in emerging-market banking

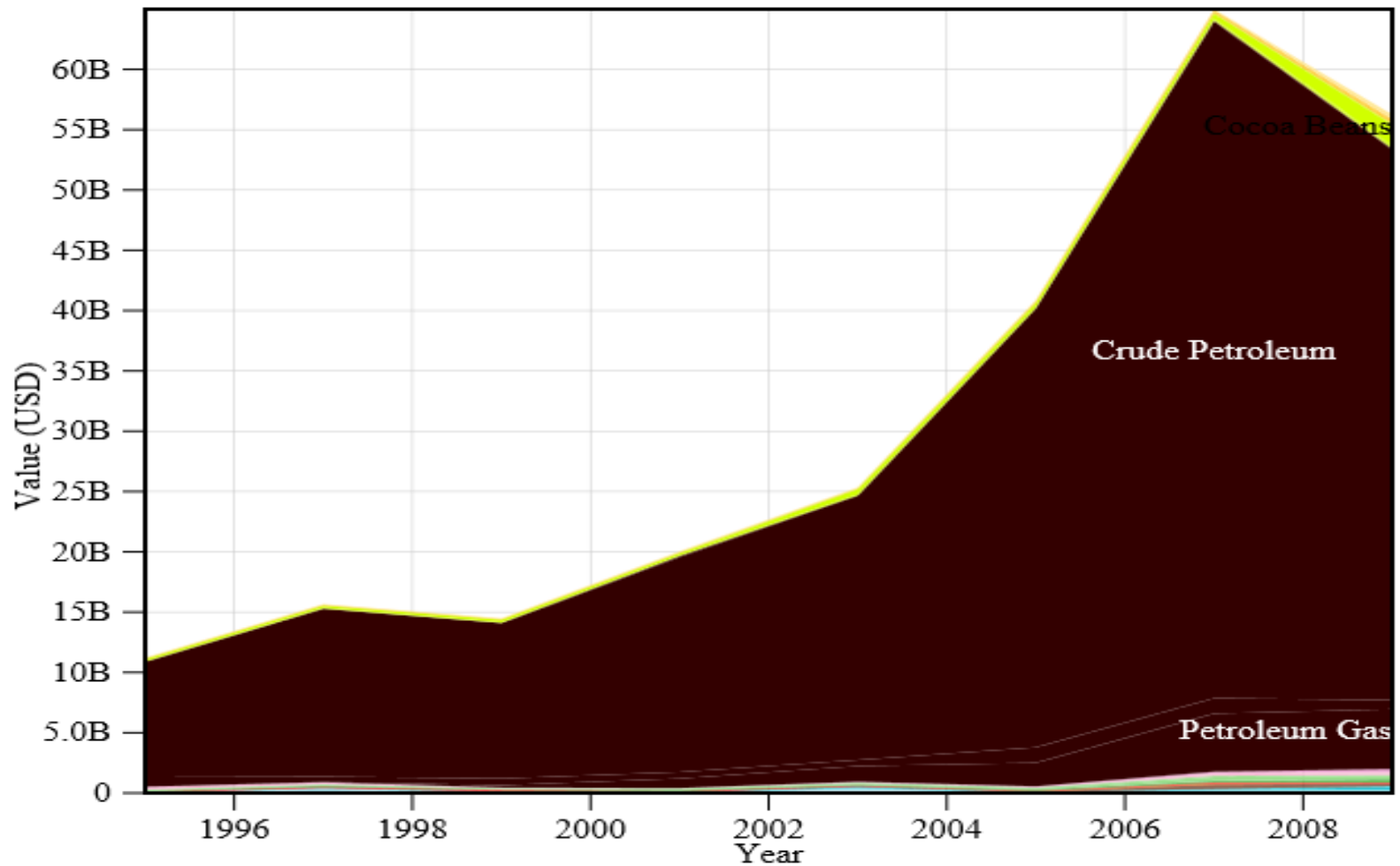


By 2015, 221 million additional basic needs consumers will enter market in Africa

African mobile phone market has surpassed the 400 million subscription mark

3. Africa's growth

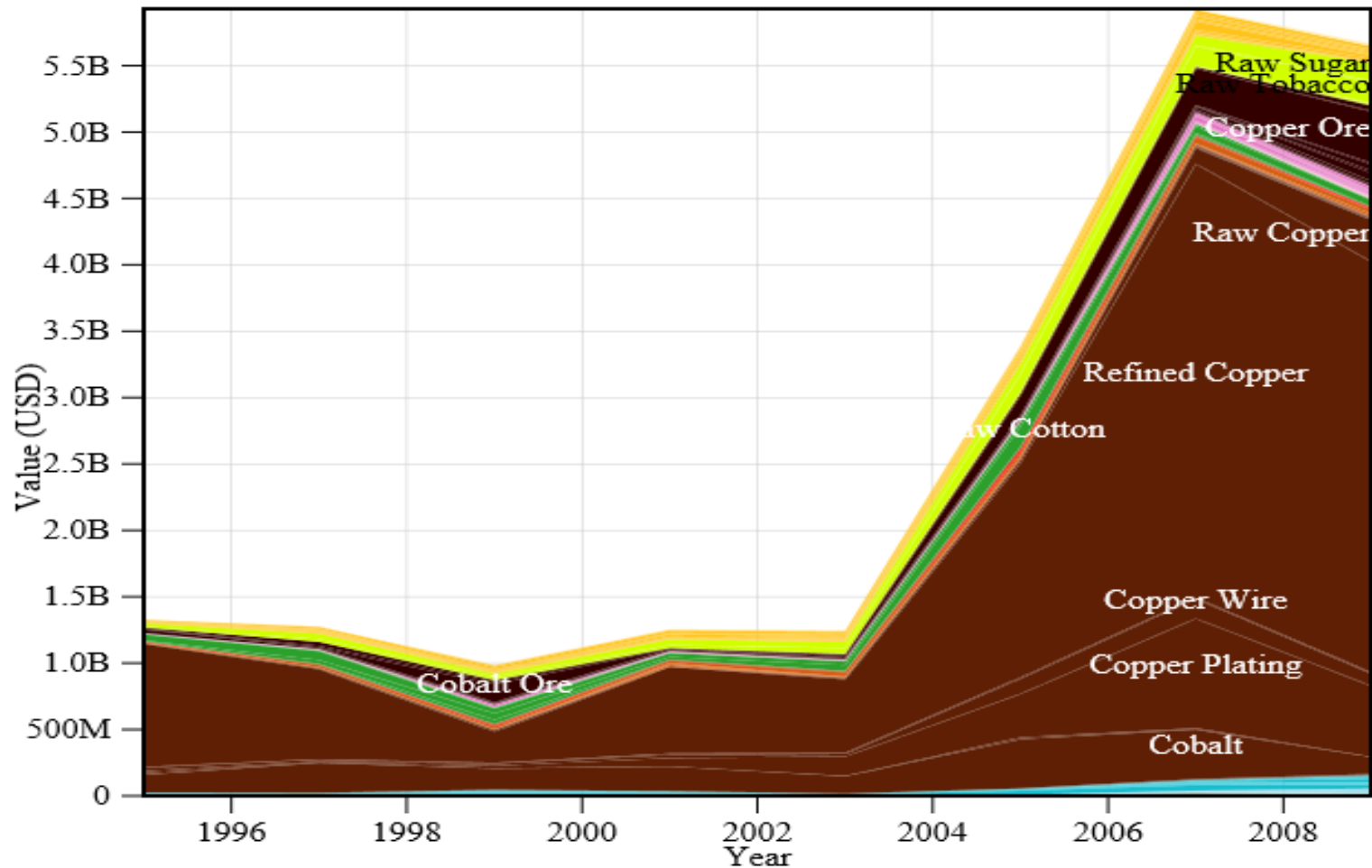
Export mix of selected African country



Source: The Observatory of Economic Complexity

3. Africa's growth

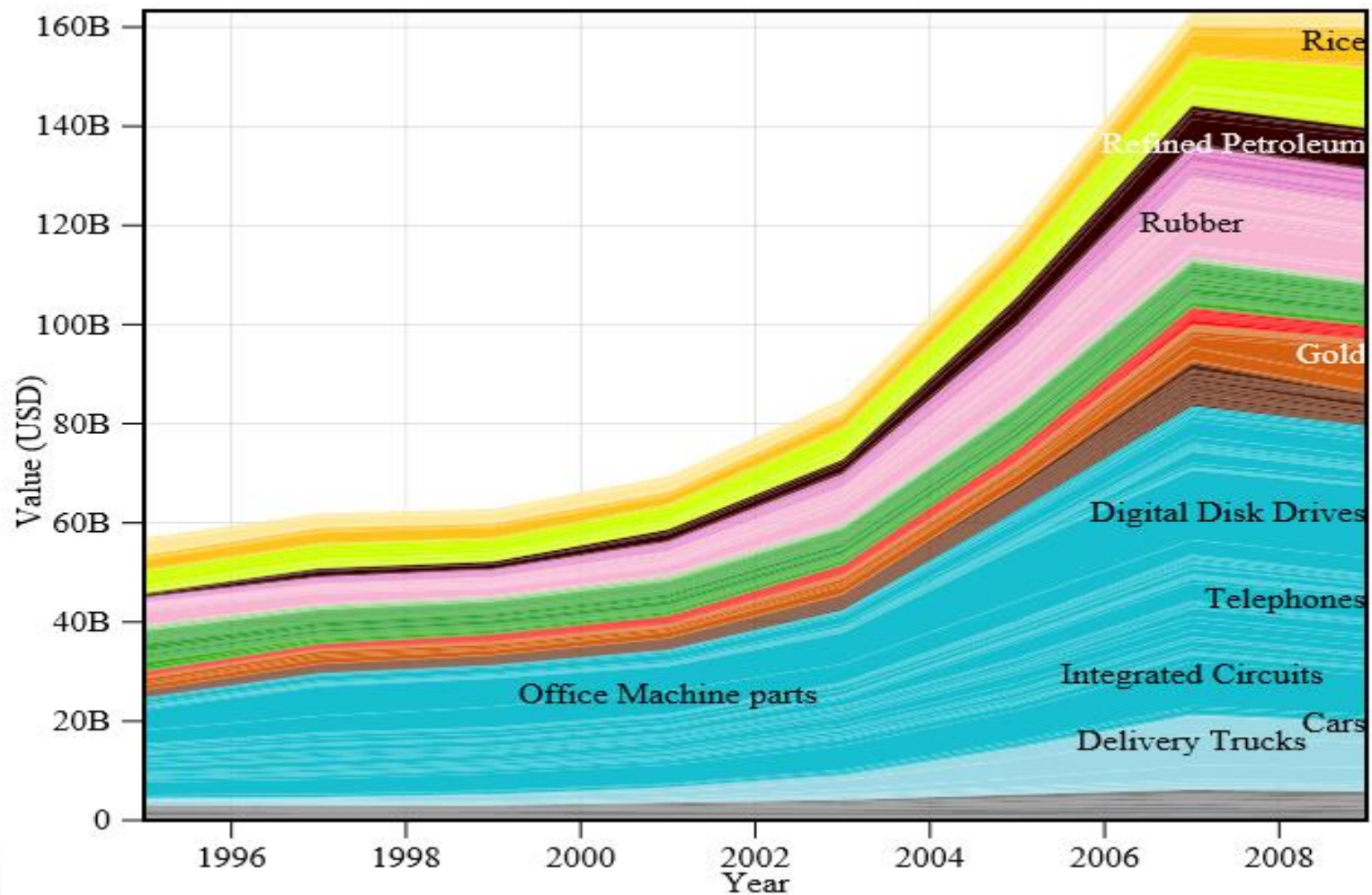
Export mix of selected African country



Source: The Observatory of Economic Complexity

3. Africa's growth

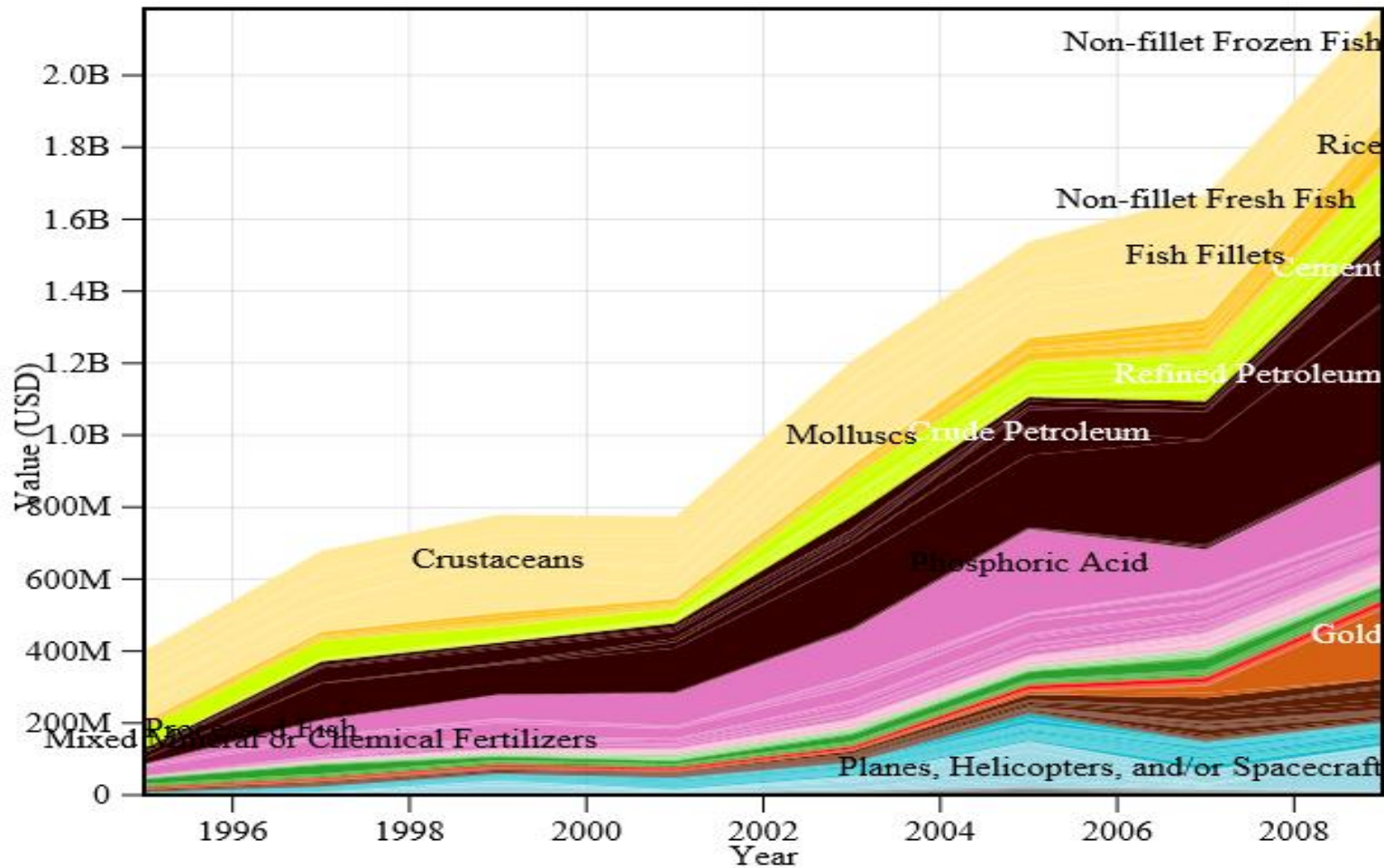
Export mix of selected **Asian** country



Source: The Observatory of Economic Complexity

3. Africa's growth

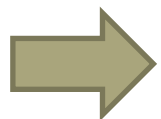
Export mix of selected African country



Source: The Observatory of Economic Complexity

4. Capital flows

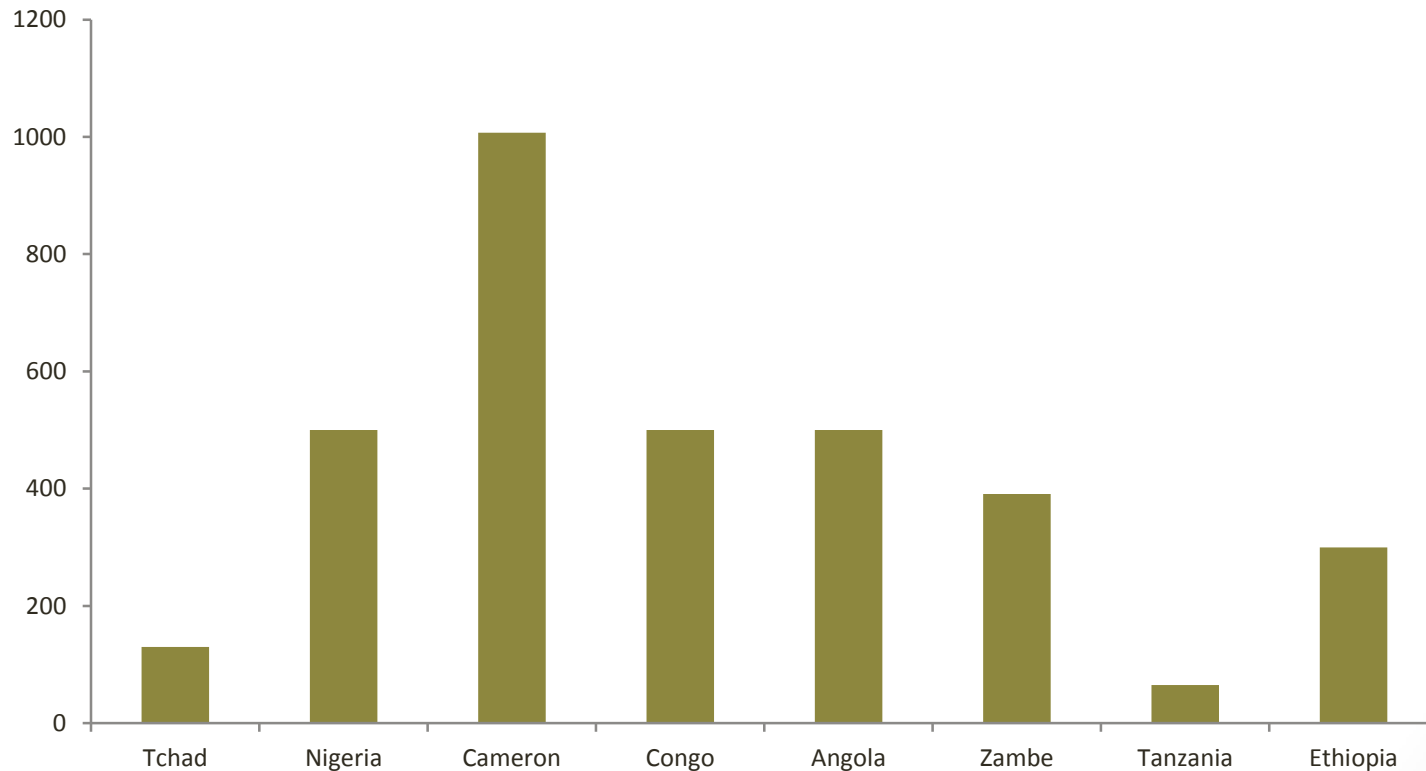
- ❖ Overall, **total external financial flows to Africa** reached a historic high of an estimated USD 186.3 billion (US Dollars) in 2012, up from USD 158.3 billion in 2011 (AEO, 2013). Projected to reach a new record of USD 203.9 billion in 2013.
- ❖ **Remittances** are now the largest external flows to Africa since 2012, overtaking ODA and FDI. From USD 13.1 billion in 2004 to an estimated USD 50 billion in 2012. They represent 55% of total external flows and 6% of the GDP.
- ❖ While FDI to Africa remains mainly concentrated in **resource-rich countries and in extractive industries**, remittances are directed to a more mixed group of middle-income countries (Cameron, Morocco, Nigeria...).
- ❖ FDI has been **concentrated in some countries** (South Africa, Nigeria, Egypt, Algeria, Mozambique, Ghana and Zambia).



But the most important feature of foreign investment is its origin, from North-South to South-South

4. Capital flows

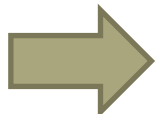
❖ **CHINA EXIM BANK** investments in selected countries 2010-2012 9
(in USD million)



Source: Jeune Afrique

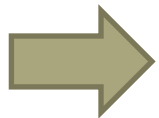
5. Trade Finance

- ❖ African trade experienced more than a **threefold increase in value** over the last decade to stand at USD 1.2 trillion in 2010 sustained by robust expansion in global demand, new opportunities created by globalization as well as increasing commodity prices.
- ❖ African trade flows not only grew in value over the last decade but also **diversified** thanks to the emergence of new partners and advances in regional integration.
- ❖ However, African trade is confronted to several **challenges**, which have left Africa with a share that hardly exceeds 3% of global trade (2010).

 **The supply of trade loans is not sufficient and the funding gap is estimated at about USD 25 billion**

6. Infrastructure Financing

- ❖ Africa's infrastructure financing gap stands at USD 50 billion a year and it is growing (AfDB).
- ❖ Inadequate infrastructure holds back economic growth in the continent by 2% each year, and reduces the productivity of the private sector by as much as 40%. This equates to USD 40 billion in lost GDP every year (AfDB).



There are various barriers impeding greater infrastructure investment in Africa

Lack of Well-Prepared Projects

Lack of Public Resources

Absence of Early Risk-Takers

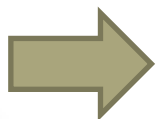
Equity Facility

Lack of Experienced Transaction Advisors

Reliance on DFIs for Project Finance

7. SME

- ❖ There are between 55 and 77 million MSME in Africa. 69% estimated to be in the informal sector, 21% in the micro-enterprise sector and only 10% being formal MSME (AfDB).
- ❖ Formal SMEs in Africa represent less than 10% of total employment against 50% in Europe (AfDB)
- ❖ Supply-Side Constraints: (i) opaqueness of MSMEs; (ii) ‘informality’; (iii) poor record keeping; (iv) lack of audited financial statements; (v) poor governance structures; (vi) the “family’ nature of most SMEs; (vii) absence of lucidly written business plans; and (viii) lack of collateralizable assets in the hands of SMEs (IFC–WB Enterprise Surveys).



**Large Funding Gap: USD 140 to USD 170 billion
(IFC/McKinsey)**

8. Frontiers markets / Private Equity

- ❖ PE has rapidly increased in Africa from already established market such as South Africa, to frontier markets such as Nigeria or Kenya.
- ❖ Private equity deals in Africa main features:
 - lower multiples than deals globally across all deal sizes
 - less debt than private equity deals globally
 - deal multiples in African private equity are generally lower than listed market multiples across the regions of the continent
- ❖ African financial markets have experienced significant growth since the 1990s, increasing from roughly a dozen to 23 in the past 20 years, including two regional stock exchanges. Two main reasons for growth: higher returns realized on the continent, and the growing interest from domestic investors.
- ❖ Total stock market capitalization on the continent now exceeds USD 1 trillion.

9. Challenges and opportunities

- ❖ **Political and credit risk mitigation products** are now on the radar of foreign investors.
- ❖ More countries tapping **Capital Markets** thanks to increasing appetite from investors to diversify from previous core markets.
- ❖ **Resource mobilization**
 - Excess reserves
 - Pension funds
 - Sovereign Wealth Funds
- ❖ **Green Africa:** millions of Africans are subjected to the devastating impacts of climate change: droughts, increased magnitude and variability of precipitations and storms ... How climate change will affect growth ?

10. The African Development Bank

- ❖ Africa's premier development financial institution focused on reducing poverty, and improving living conditions on the continent
- ❖ Mission & Objective: to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction
- ❖ The Bank Group achieves its objective by:
 1. mobilizing and allocating resources for investment in Africa; and
 2. providing policy advice and technical assistance to support development efforts.
- ❖ The African Development Bank:
 1. Triple-A by all major ratings agencies
 2. 0% risk weighting under Basel II



African Development Bank ("AfDB")
Established in 1964
53 African and 24 non-African countries

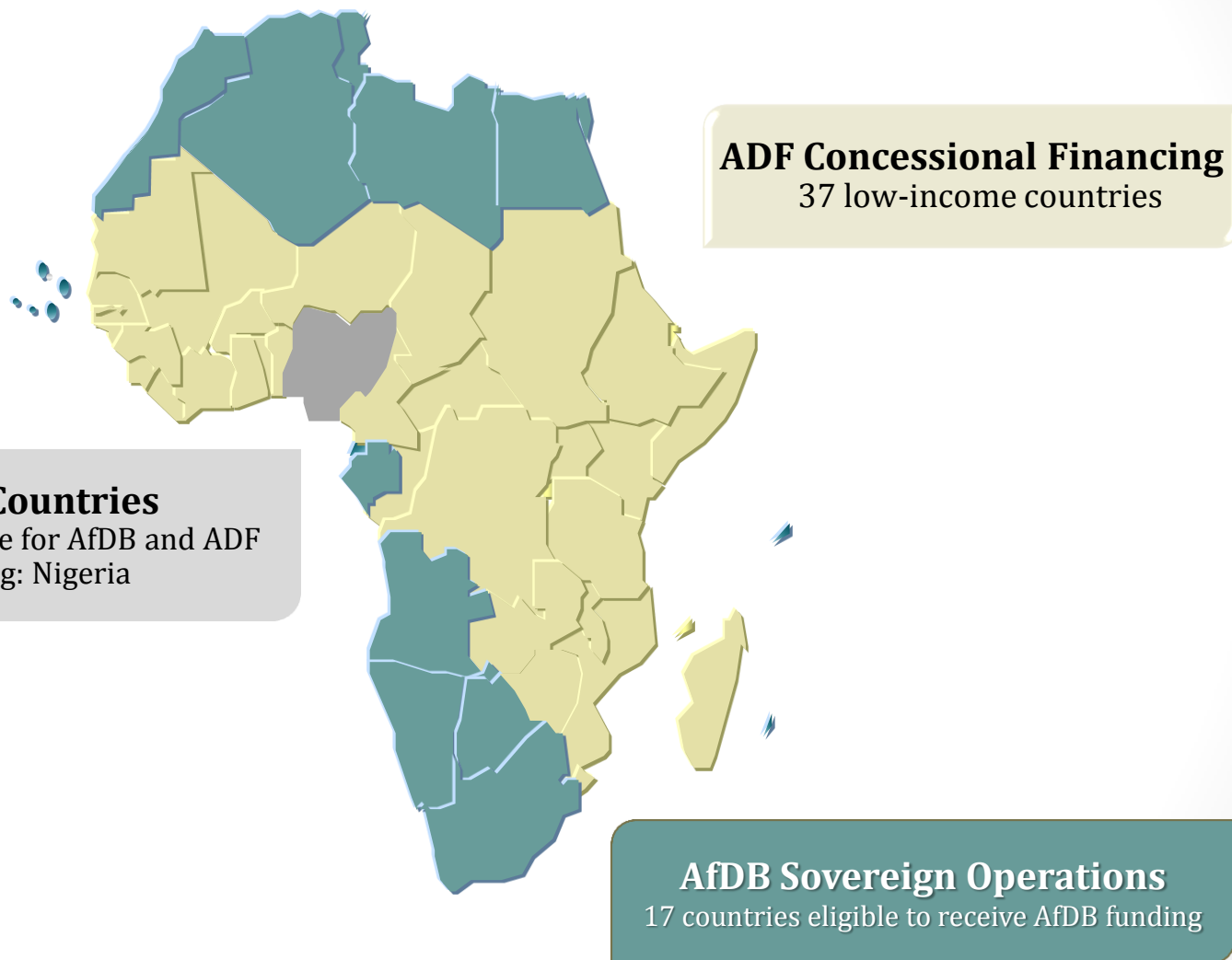


African Development Fund ("ADF")
Established in 1972
Primarily financed by donors
Concessional Financing Terms

NTF

Nigeria Trust Fund ("NTF")
Established in 1976 by Nigeria
Maturity 2018
Concessional Financing Terms

The Bank's Group countries classification



The Bank's Group Strategy

❖ Two main pillars:

1) INCLUSIVE GROWTH

2) GRADUAL TRANSITION TO GREEN GROWTH

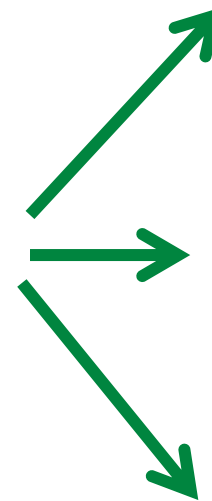
Infrastructure Development

Regional Integration

Private Sector Development

Governance and Accountability

Skills and Technology



Investment
and
Business
Climate

Social and
Economic
Infrastructure

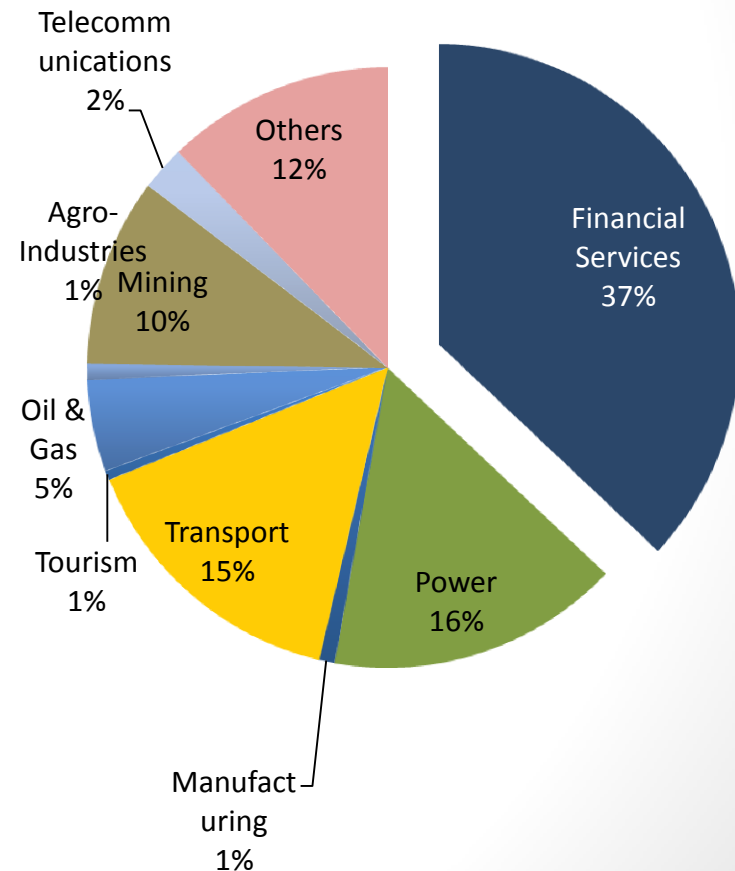
Enterprise
Development

Products

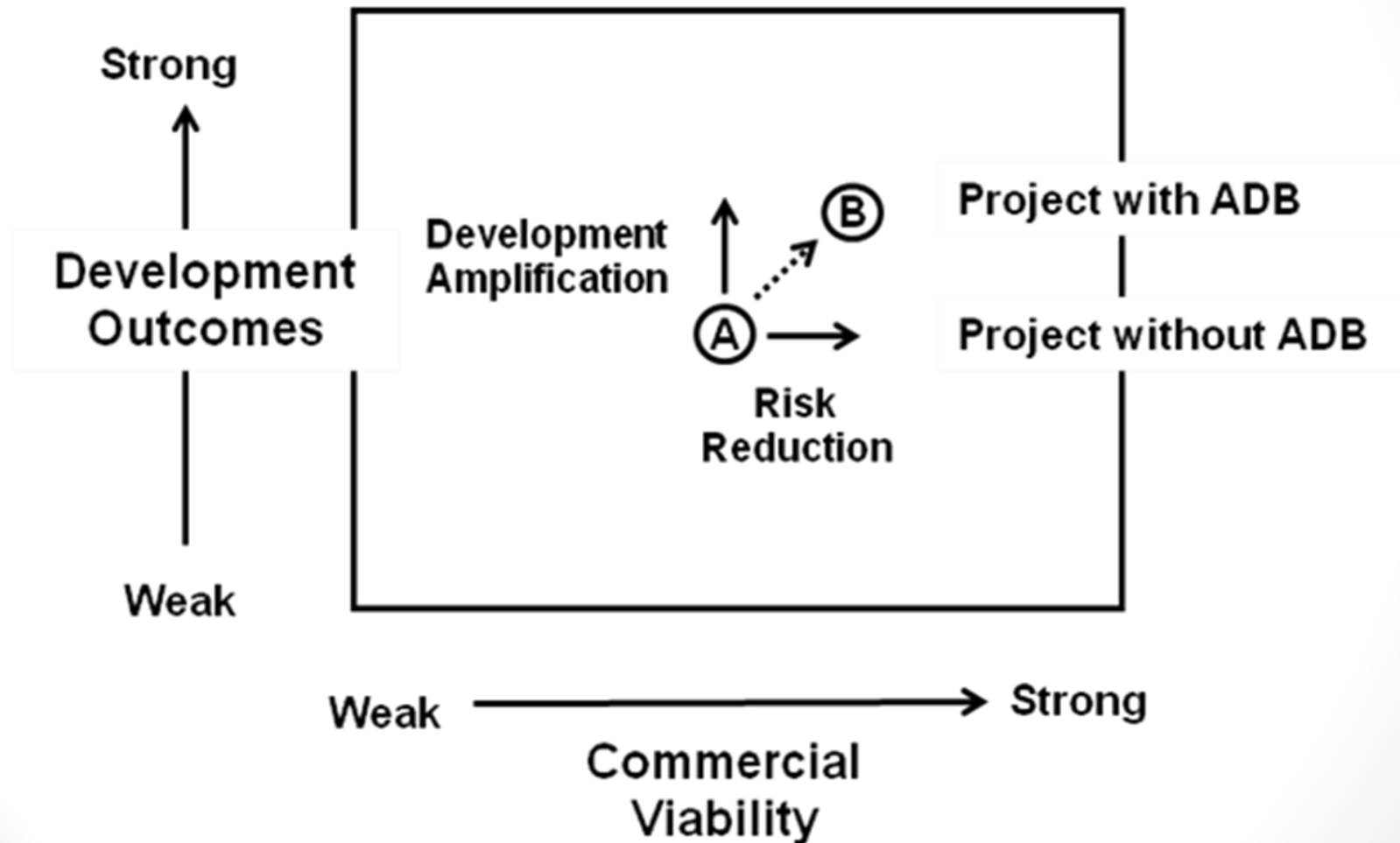
- LOAN PRODUCTS
 - ❖ SOVEREIGN GUARANTEED LOANS
 - ❖ NON SOVEREIGN GUARANTEED LOANS
 - ❖ LOCAL CURRENCY LOANS
 - ❖ SYNDICATION
- GUARANTEES
 - ❖ PARTIAL RISK GUARANTEES
 - ❖ PARTIAL CREDIT GUARANTEES
- RISK MANAGEMENT PRODUCTS
- EQUITY AND QUASI-EQUITY
- TRADE FINANCE
- TECHNICAL ASSISTANCE

Private Sector Lending

- **Infrastructure (at least 30%)**
 - Focus on Power, Renewable Energy, ICT, Transport, Water
- **Industries & Services (up to 30%)**
 - Heavy industries, mining, O&G, agro-industries, services
 - Mostly medium, large and mega enterprises/project finance
 - Develop SME linkages
- **Financial Intermediation (up to 40%)**
 - Banks, Trade finance, DFIs, MFIs, housing finance, leasing
 - Medium, small and micro enterprises, capital markets



Investment Philosophy



Strategic fit and commercial viability

- **Country / Regional Development Priorities**
 - Fit with national and regional development objectives, programs, etc
- **AfDB Country / Regional / Sector Assistance Priorities**
 - Fit with Country Strategy Paper (CSP) pillars, sector and cross-cutting policies/strategies, etc
- **AfDB Private Sector Operational Priorities**
 - Fit with sector, geographic, instrument, financial performance and risk management objectives (KPIs), etc
- **Overall Strategic Alignment Assessment**
 - Combined assessment of fit
- **Country Risks**
 - Macroeconomic performance, political risk
 - Business, regulatory, legal environment
- **Project Risks**
 - Industry and outlook
 - Corporate finance – credit analysis
 - Project finance – cash flow analysis
 - Instrument – debt, guarantee, equity
 - Risk mitigation measures, credit enhancement

Financial sector intermediation

- ❖ One of the key mandates of the Bank is to promote the development of the financial sector in Africa.
- ❖ Lines of Credit and equity participation in more than 30 financial institutions in Africa (commercial banks and regional development banks).
- ❖ Sectors covered through Lines of Credits: transport, health, agribusiness, migration, women, leasing, education...
- ❖ Two new initiatives:

TRADE FINANCE

- *Risk Participation Agreements*
- *Trade Finance Line of Credit*
- *Soft Commodity Finance Facility*

SME

- *Creating a network of Financial Institutions dedicated to SME lending*
- *Promoting technical support and know-how*

Thank you