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Africa in 2019 Outlook

Summary Report

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Welcome, introductions and context

How can Africa improve on its ability to execute economic growth?

Lwazi Bam, Chief Executive, Deloitte Africa

The optimistic outlook which Deloitte Chief Executive Lwazi Bam had for the continent in 2018 still remains in 2019, however various developments across the continent have resulted in increasing uncertainty for the year.

In 2018, optimism in Africa was informed by somewhat progressive regime changes in some countries, recovering commodity prices, and a mostly positive global economic outlook. In 2019, however short-term developments in the Democratic Republic of the Congo (DRC) and Zimbabwe, as well as the prospects of major elections in 24 African countries, all contribute towards a sense of ambivalence of the continent's future. Added to this uncertainty are issues pertaining to the continent's chronic inability to execute on economic development goals.

It is reasonable to assume that African leaders, irrespective of their government and ideology, share the common objective of improving the living standards of their people. Furthermore, these leaders agree on the continent's key developmental priorities – education, infrastructure, and economic diversification. However, chronic disagreement and politics on how to execute on shared priorities continues to stymie the continent's ability to make meaningful progress. This can best be illustrated by the state of education on the continent.

Education in Africa, which has been prioritised by most government leaders and enjoys a significant portion of national budget spend, continues to lag behind global standards. The Mo Ibrahim Index – a tool used to measure and monitor government performance in African countries – indicates a decline in the average level of education on the continent since 2013. Furthermore, according to the World Bank Group, less than 14% of students in later primary school are proficient in mathematics, and less than 7% are proficient in reading. Thus, despite education being adequately identified as a key issue across the continent, with a fair amount of resources directed towards the sector, the outcomes continue to tell a different story.

Multiple analyses have been conducted on the underlying factors creating the situation observed in the education sector, and there has been no shortage of suggested solutions. The problems and constraints highlighted are real, and the solutions proposed are viable, however, execution in improving education continues to falter, resulting in further complications such as the inability to improve tax bases and low rates of innovation.

The same can be said about infrastructure development in Africa, where numerous studies have indicated a growing deficit in spend, particularly in key sectors such as energy and power. African governments have shown an understanding of the importance of the sector for economic growth and development, and have pledged to do more to improve on the availability and access of power across the continent. However, much like the education sector, execution continues to fall short of expectations.

The focus in 2019 should thus be on how African governments can improve on their overall capacity to execute, as well as an exploration of the ways in which the private sector can assist to deliver on these mandates.

Africa in 2019 Outlook Keynote

The outcomes of elections that will be held in 24 African countries in 2019 will shape the future of many economies.

Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Africa

At the 2018 Africa Outlook conference key trends unfolding on the continent at the time included divergent regional growth in Africa, the growing China-Africa play, as well as the Trump administration's limited engagement on the continent. Other topics closer to home included the *"Ramaphoria"* effect, as well as political developments in neighbouring Zimbabwe.

Since then, a number of developments have taken place on the continent, giving rise to a set of new thematic issues that are set to have an impact on business in 2019.

US-Africa strategy countering China

At the end of 2018, United States (US) National Security Advisor John Bolton unveiled the Trump administration's new Africa strategy. Known as the Better Utilization of Investment Leading to Development (BUILD) Act, the policy move aims to ensure US competitiveness on the continent where extensive engagement has already been made by China. How this geostrategic competition between two great powers plays out for the continent is a key question.

Growing debt in Africa

African economies have witnessed rising debt levels as the continent continues to make use of borrowed funds to finance infrastructural development. With a significant sum of financing flowing from China, the average debt-to-GDP ratio on the African continent has risen to 57%.

What is important, however, is not the amount, but the serviceability of the debt in question. African economies need to ensure that acquired infrastructure is used productively to create returns that can service the debt from which such infrastructure originated.

Fast GDP growth, but what does it mean?

Five of the top ten fastest-growing economies in the world in 2019 are in Africa, and four in Sub-Sahara Africa (SSA). Yet, for GDP growth to produce the structural changes needed across the continent, it needs to be inclusive and qualitative in nature. In 2019, it is important that more focus is placed not only on quantity (high growth) but also on the qualitative nature of growth.

The year of politics

In 2019, 24 countries across the continent will hold a major election (presidential, general, legislative), which is significant given that the economies of frontier markets tend to be influenced by domestic politics. The outcomes of these elections will shape the future for many economies on the continent.

Nigeria and South Africa – will 2019 be a year of structural reform?

Nigeria and South Africa, two of Africa's largest economies currently experiencing "structural limbo", are in need of renewed growth drivers. It remains to be seen whether or not the requisite political will exists to reinvigorate growth in both economies.

Maturing emerging markets – demography is destiny (for growth)

Growth in an economy is underpinned by the working-age population. Africa is well positioned in this regard with a large young population base, which is set to expand going forward. What is left is to ensure that enough jobs are created to leverage the continent's demographic makeup.

Ethiopia

Referred to as the "African miracle" Ethiopia's leadership has undergone significant restructuring to ensure that the economic changes currently taking place are supported by new political thought and leadership. Growth in Ethiopia has been driven by investment in fixed capital, giving rise to powerful domestic industries responsible for job creation. The future development of Ethiopia poses an interesting case study for the continent.

Looking forward, 2019 is set to be the year of uncertain sentiment, most notably due to global trade tensions and protectionist strategies and their potential effect on the global economy. However, not all global crises are felt equally across geographic regions, as was the case with the 2008 global financial crisis.

Panel discussion: Private capital as a force for development in Africa

Vuyo Ntoi, Investment Director - Head of Southern and Central Africa, African Infrastructure Investment Managers

Tanya van Lill, CEO, Southern African Venture Capital and Private Equity Association (SAVCA)

Nabeel Laher, Head: International Private Equity, Old Mutual Alternative Investments

Karin Hodson, Africa Managing Partner for Financial Advisory, Deloitte Africa

Moderator: Gugu Mfuphi, Senior Anchor, CNBC Africa

In Africa the private capital space is seeing increased assets under management.

Productive infrastructure is vital for development to take place in Africa, however, access to funding continues to be a significant issue facing multiple economies across the continent. According to figures published by the African Development Bank (AfDB), infrastructure needs across the continent amount to US$130bn-US$170bn a year, with a corresponding funding gap in the region of US$67.6bn-US$107.5bn. Furthermore, tightening fiscal conditions across the continent mean that the existing funding gaps will not be covered by government expenditure, placing infrastructure investment under stress.

The introduction of private players in the infrastructure funding space, however, has been a significant development, particularly where infrastructure is concerned in countries in need of growth.

Private capital is money provided to a borrowing party from a source other than an institutional source or the public (through an initial public offering (IPO)). This alternative asset brings a multiplier effect, as can be observed in its ability to create jobs, while impacting the receiving entity's value chain in its entirety. Furthermore, beyond the exchange of funds, private capital facilitates the transfer of expertise and technology, both of which can have a profound impact on the developmental trajectory of the receiving economy – particularly in increasing the tax base. Thus, the applications and benefits of private capital across the continent extend well beyond the scope of infrastructure.

In Africa, the private capital space is seeing increased assets under management (AUM), increased deal activity, and significant growth in funds available for investment – all of which point towards a growing appetite for the alternative asset class. In comparison to global markets, however, the sector in Africa is still in its infancy evolving only recently in the last 10-15 years. Where the top 100 global pension funds allocated an average of 20% of their AUM into alternative assets, African economies across the continent invested less than 1% into the same asset class.

Also, it is evident that activity in the sector is not distributed evenly across the continent. While Southern Africa remains the hub of deal activity on the continent, East Africa has recently gained in interest due to strong GDP growth in the region. Key sectors of interest in East Africa include food and beverage, manufacturing, healthcare, and education – due to the intrinsic consumer focus of these sectors, ideal for scaled returns.

Perhaps the most striking application of private capital in Africa is its use as a long-term extractor of returns from traditionally volatile markets, owing to the long-term view of the asset class. Furthermore, the Environmental, Social and Governance (ESG) considerations associated with alternative assets tends to be more developed than those of traditional asset classes, resulting in positive externalities for all stakeholders. Despite these benefits, the investment environment across the continent continues to be viewed with much scepticism by foreign investors, with risks of fraud, exchange rate risk, and governance being the main concerns.

Intra-African trade – trade between African countries – currently accounts for 18% of overall trade on the continent, indicating the high degree of opportunity that still exists for the further integration of African economies. To this end, it is paramount that the necessary funding is available to develop African economies as well as support their ability to trade with each other. While private capital can be key enablers of such development, countries hoping to attract more private capital need to focus on developing growth incentives and an industrial base to drive investment.

Panel discussion: Free trade in Africa – How will the AfCFTA play out?

Victor Williams, Head, Corporate and Investment Banking, Africa Regions; Standard Bank Group

Stuart Bird, Executive Director and Former CEO, Mr Price Group

Hennie Heymans, MD, DHL Express sub-Saharan Africa

Moderator: Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Africa

What will come first: industrialisation or liberalisation?

As one of the flagship projects of the African Union's Agenda 2063, the African Continental Free Trade Area (AfCFTA) aims to create a single market economy to enable the free movement of goods, which may see over one billion people benefit from a combined GDP of almost US$3.3trn.

Yet, with 49 countries having signed the consolidated AfCFTA agreement and only 18 out of the required 22 countries having ratified the agreement, Africa's development impasse may be the result of a number of factors.

Political will

Political will is fundamental to achieving free trade across the African continent, as there needs to be a concerted effort from governments and politicians to drive regional free trade.

If AfCFTA follows through with its mandate, it could have the potential to unlock value for companies such as the Mr Price Group, whose operations in 13 African countries may benefit from the logistical and manufacturing capabilities that a unified region would expose the South African-based retailer to. However, engagements between corporates and government are largely characterised by bureaucratic inertia, making it difficult to enable integration. In order to drive substantive outcomes,

AfCFTA will require stakeholders to facilitate and stabilise economic growth across the continent.

Infrastructure and logistics

Africa's infrastructure deficit remains a primary constraint to growth, and so too the resultant high costs of logistics. Although logistics is paramount to AfCFTA, its scale requires significant infrastructure investment and development across the continent, in order to drive structural reform.

Infrastructure upgrades will facilitate more efficient trade between countries and across regions. The improvements will also provide an opportunity for countries to leapfrog to new efficient technologies, for investors to expand and diversify their customer base. Engagements with policy-makers and stakeholders will thus be fundamental to ensure infrastructure development across these markets.

Cost of doing business

The cost of doing business across African markets can be as high as 25% to 60% for certain products or services, as the costs associated with logistics, duties and permits tend to be much higher than those in developed economies.

Investments in commodity dependent countries such as Nigeria are often characterised by high costs such as logistics, duties, electricity and dollar-funded property developments, which continue to stunt development prospects. With the grander political project of AfCFTA being the African monetary project, achieving regional financial integration and a regional monetary union will strengthen the continent's bargaining power with global investors.

China in Africa

The presence of Chinese investment in Africa has driven infrastructure development, paving the way for new investments across the continent. Initiatives such as the Belt and Road Initiative (BRI) – a global infrastructure development and integration project spearheaded by China – has had notable influence on the role of trade and development finance across the continent.

The Chinese currency, the renminbi, has the potential to challenge the US dollar when it comes to the terms of payments for projects or business across the continent. The People's Bank of China, is expected to facilitate further engagements with African central banks in this regard; but whether the Chinese currency will supplement the US dollar on the continent any time soon, remains to be seen.

Free movement of labour

Trading talent and skills is the low hanging fruit of the broader AfCFTA project, and companies will need to be ambitious in order to drive this growth forward. The skills-export economy will remain fundamental to gearing African economies for growth, as migration will have a significant bearing on boosting the economic integration of Africa.

AfCFTA has the potential to unlock value on the continent, contributing to the broader African economy. However, gauging the appetite from African governments, more so those in the economic nodes of the continent, including Nigeria, South Africa, Kenya and Ethiopia, will determine the success of the project in the long term.

Panel discussion: A view on Africa's economic and fiscal outlook in 2019

Constantinos Kypreos, Senior Vice President, Moody's Investors Service

Ken Osei, Principal Investment Officer – Manufacturing, Agribusiness & Services; IFC, sub-Saharan Africa

Annabel Bishop, Chief Economist, Investec Bank Limited South Africa

Moderator: Gugu Mfuphi, Senior Anchor, CNBC Africa

> The priority of central banks should be ensuring financial stability on the continent.

Political tensions continue to plague African economies in 2019, fuelling further speculation their economic prospects. According to the AfDB, GDP growth on the continent is projected to be 4% in 2019 and 4.1% by 2020. Key elements affecting Africa's economic and fiscal outlook include the following:

Global economic growth

Global economic growth will underpin the development prospects of countries in Africa, however, the slowdown in China, which was supported by the announcement of a fiscal stimulus, is expected to have undue repercussions on the global economy.

Moreover, the consequences of political uncertainty in the US will filter through to emerging markets. Similarly, the impact of Brexit as well as the European sovereign debt crisis are expected to underpin the demand and supply prospects from global markets in Africa.

Banking and financial inclusion

Over the past few years, banks have built up their capital buffers to maintain a solid funding base. In East Africa, this has deepened financial inclusion. However, banks in the region will have to align with international best practises and adopt provisions to support the rise of mobile banking.

The increase of remittances has had a significant impact on financial stability within SSA banking systems, and in 2019 remittance growth is expected to continue. However, given that the region is affected by contrasting dynamics such as geopolitical risks and trade tensions, these will need to be addressed to determine the financial conditions of these states. Together with rising government debt, these factors will continue to put pressure on banking systems.

Banking penetration in the rest of Africa remains low. As it stands, the ratio of banking assets to GDP is under 70%, while in South Africa it is 117%. Although the potential exists to grow this base, there are a number of constraints:

Size: The SSA banking sector is dominated by smaller banks, but in order to achieve scale and drive financial investments, larger banks will need to participate in stimulating financial inclusion. The influx of global players investing in micro enterprises will scale up inclusion in the banking sector.

Access to funding: When it comes to banks, size matters; and the bigger the bank, the more capacity they have to support consumers that do not have access to formal markets. Pan-African banks have the capacity and strategies to tap into these markets and create new opportunities to promote inclusive growth. Private equity funds will continue to back financial inclusion initiatives across the continent.

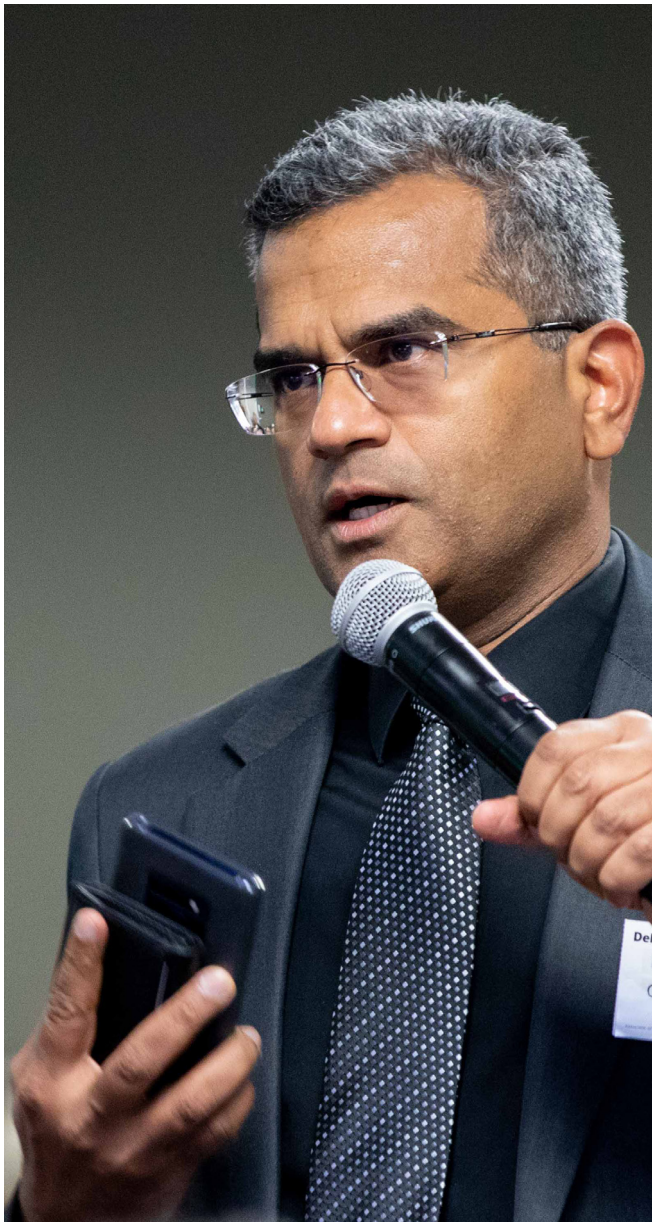
Fiscal consolidation

Government finances have been affected by low commodity prices, and for commodity-dependent economies, this has seen the escalation of government debt. However, government guarantees to ailing state-owned enterprises need to be stabilised in order to close fiscal deficits.

South African elections

As South Africans approach the general elections in May, investors will be looking to the president to affirm the South African Reserve Bank's (SARB) mandate. While investors have regained confidence in the South African economy, the consolidation of cabinet to reduce the expense of civil service and government finances is being scrutinised by credit rating agencies. However, a 2019 Investec GDP growth forecast of 1.9% anticipates that better governance will continue to pull through to aid domestic policies.

While 2019 is expected to be a better year for South Africa, with minimal concerns of a further ratings downgrade, there needs to be an improvement on the country's fiscal outlook to mitigate risks such as unforeseen increases in expenditure to fund infrastructure projects, rising government debt and political uncertainties.



The continent will need to focus on multilateral trade to benefit from a connected Africa.

Summary and close

Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Africa

Africa has distinctive growth trajectories. East Africa, for example is increasingly approaching Asia's growth figures, in terms of the flows of trade, capital, people and activity, while countries in Southern Africa reported pedestrian growth in the same period.

It is inherently apparent that Africa is not homogeneous, and the flows facilitation of trade and investment will be essential in stimulating Africa's economic development. By liberalising trade routes, to facilitate cross-border commerce, the development of African economies will be determined by political will from governments to integrate the continent.

Private capital will provide opportunities for the privatisation of state-owned enterprises, a trend that is expected to continue throughout 2019. The liberalisation of the infrastructure of power utilities, can also have significant economic repercussions that may filter through various sectors and industries.

However, it is evident that governments need to deliberate on how they can develop the continent to attract and generate capital, not just financial, but intellectual capital too.

Deloitte Africa is the widest and most integrated professional services firm across the continent and with a presence in 43 countries, Deloitte understands that drawing valuable insights on Africa will be essential to creating a connected Africa.

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