FINANCIAL DEVELOPMENT IN AFRICA

Nova School of Business and Economics

Africa: Transitioning from Aid to Financial Markets?

Fernando Costa Lima

March 31, 2014

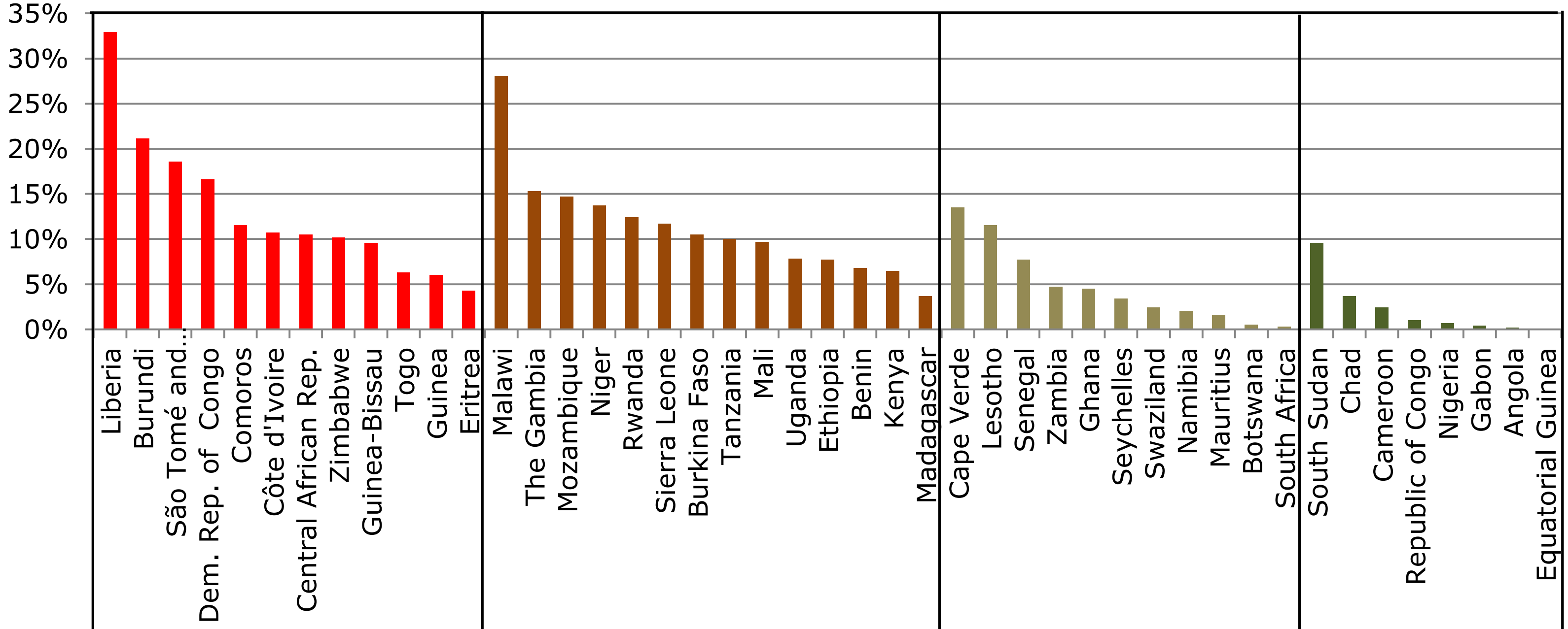
UBD - Africa

BPI

GRANTS AND GDP

1.1. What's the history today in Sub-Saharan Africa

2012 Sub-Saharan Africa, Grants % of GDP

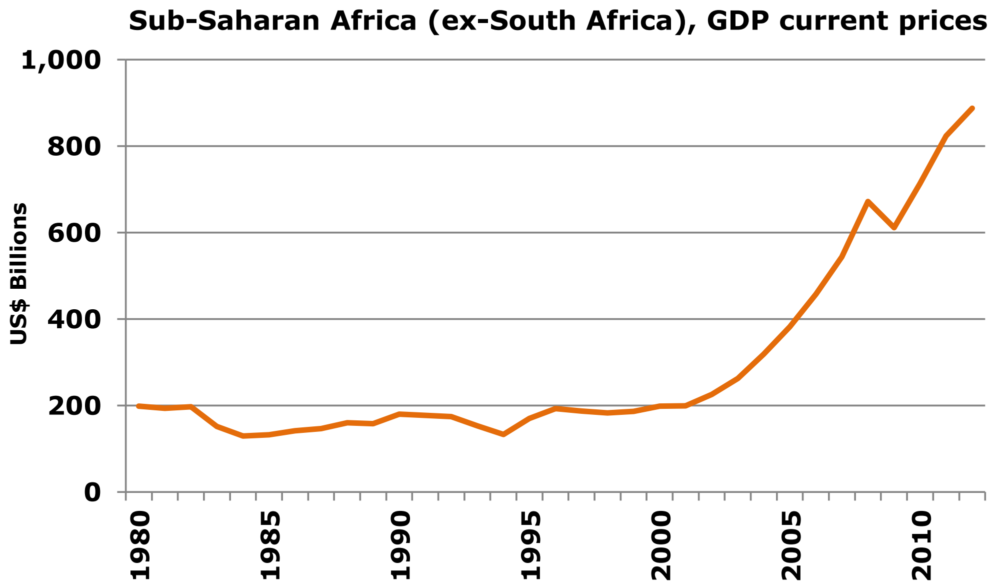


Fragile countries			Low-income			Middle-income countries			Oil-exporting countries		
Avg.	**Max**	**Min**	**Avg.**	**Max**	**Min**	**Avg.**	**Max**	**Min**	**Avg.**	**Max**	**Min**
13.2%	32.9%	4.3%	11.3%	28.1%	3.7%	4.7%	13.5%	0.3%	2.3%	9.6%	0.1%

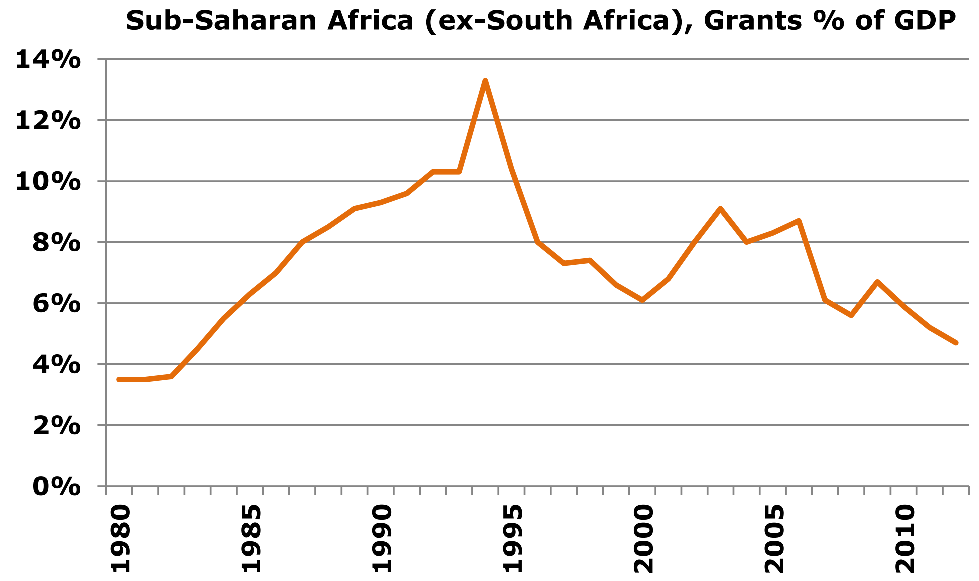
Source: IMF - World Economic Outlook, OECD – International Development Statistics

GRANTS AND GDP

1.2. And what about the past...



Source: IMF - World Economic Outlook



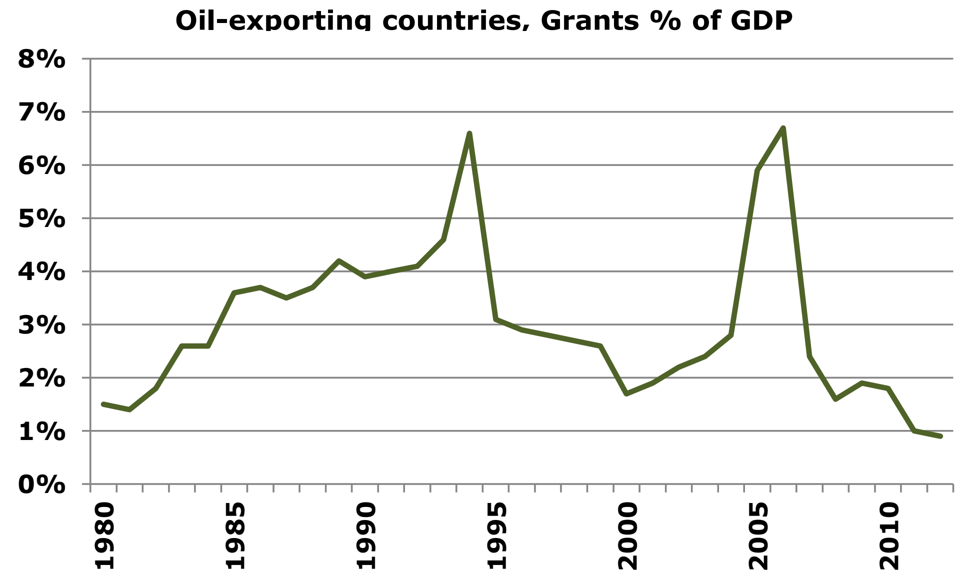
Source: IMF - World Economic Outlook, OECD – International Development Statistics

How do grants relate to economic development?

GRANTS AND GDP

1.2. And what about the past…

Source: IMF - World Economic Outlook

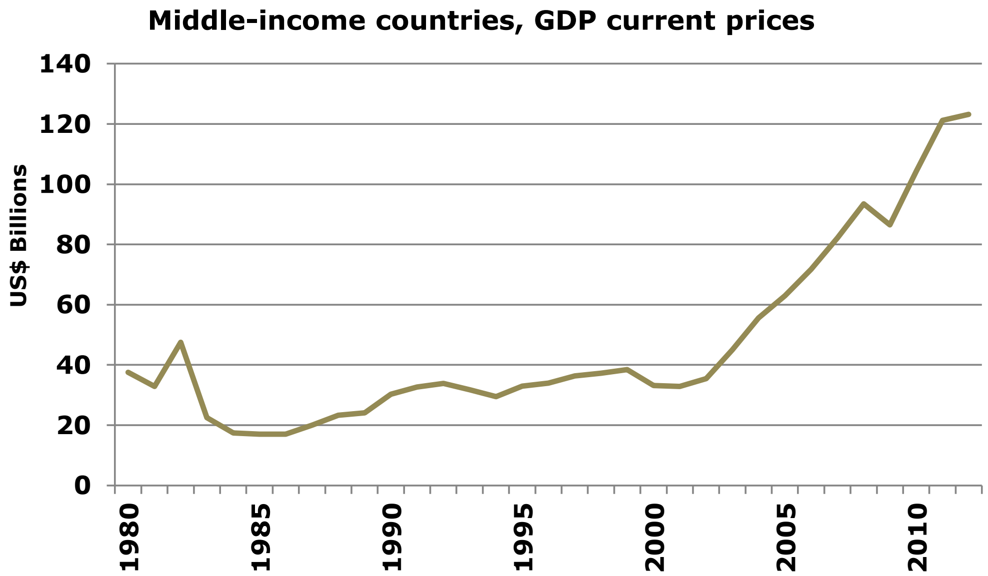


Source: IMF - World Economic Outlook, OECD – International Development Statistics

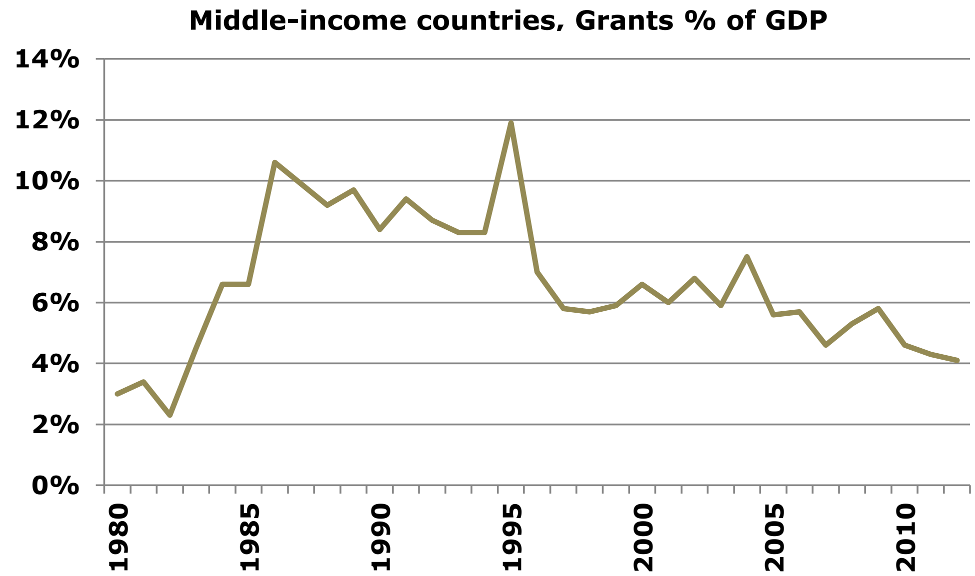
Is it all about Oil?

GRANTS AND GDP

1.2. And what about the past...



Source: IMF - World Economic Outlook



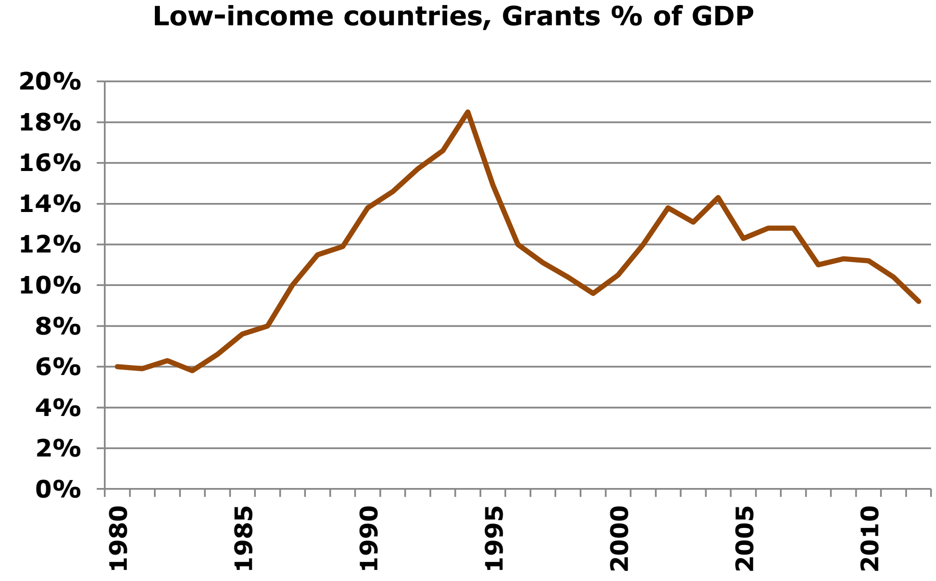
Source: IMF - World Economic Outlook, OECD – International Development Statistics

And again...

GRANTS AND GDP

1.2. And what about the past…

Source: IMF - World Economic Outlook

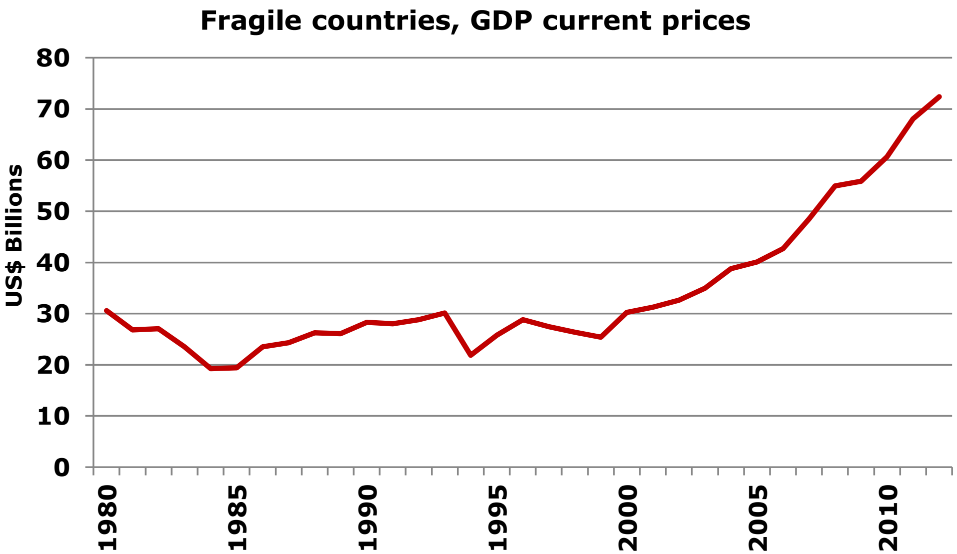


Source: IMF - World Economic Outlook, OECD – International Development Statistics

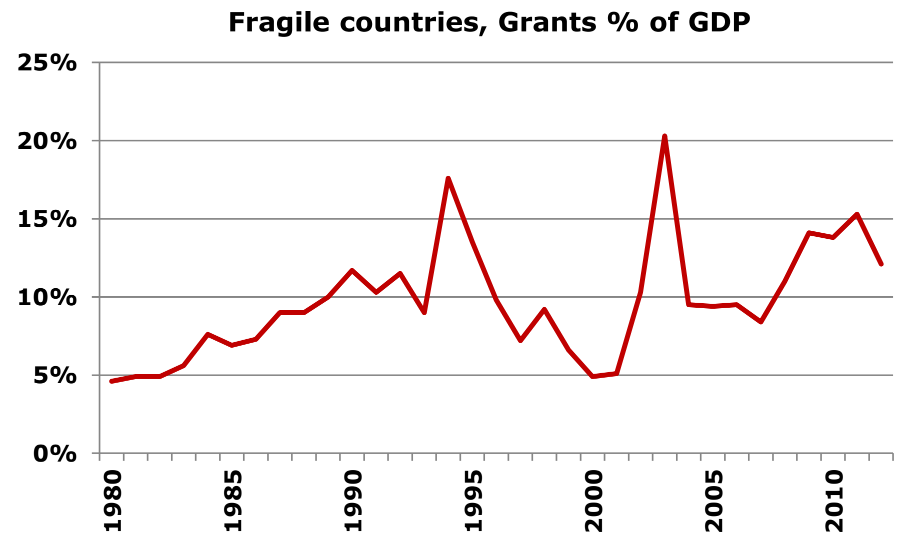
And again…

GRANTS AND GDP

1.2. And what about the past…



Source: IMF - World Economic Outlook

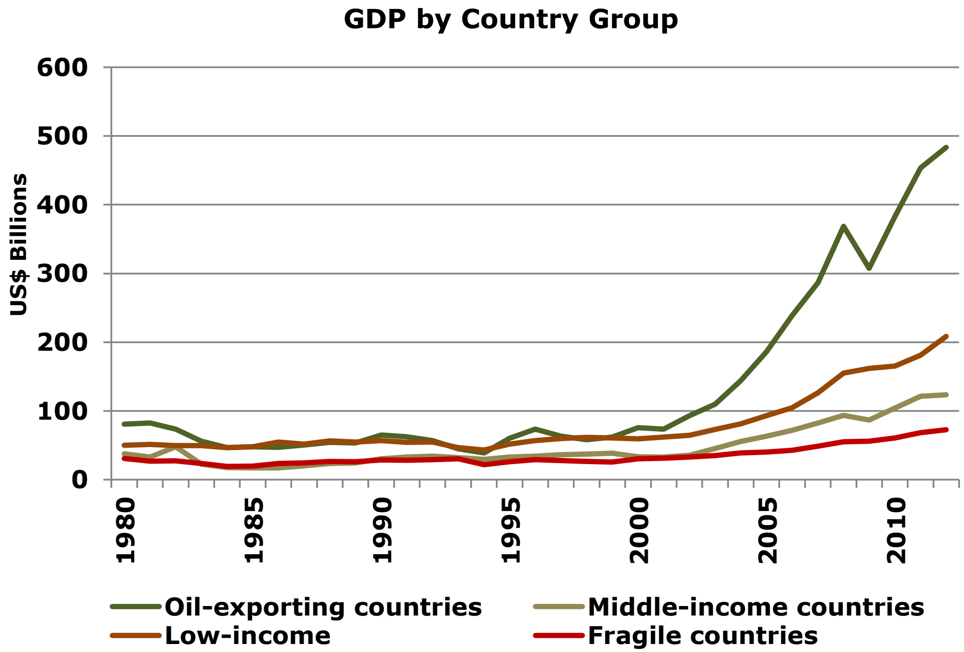


Source: IMF - World Economic Outlook, OECD – International Development Statistics

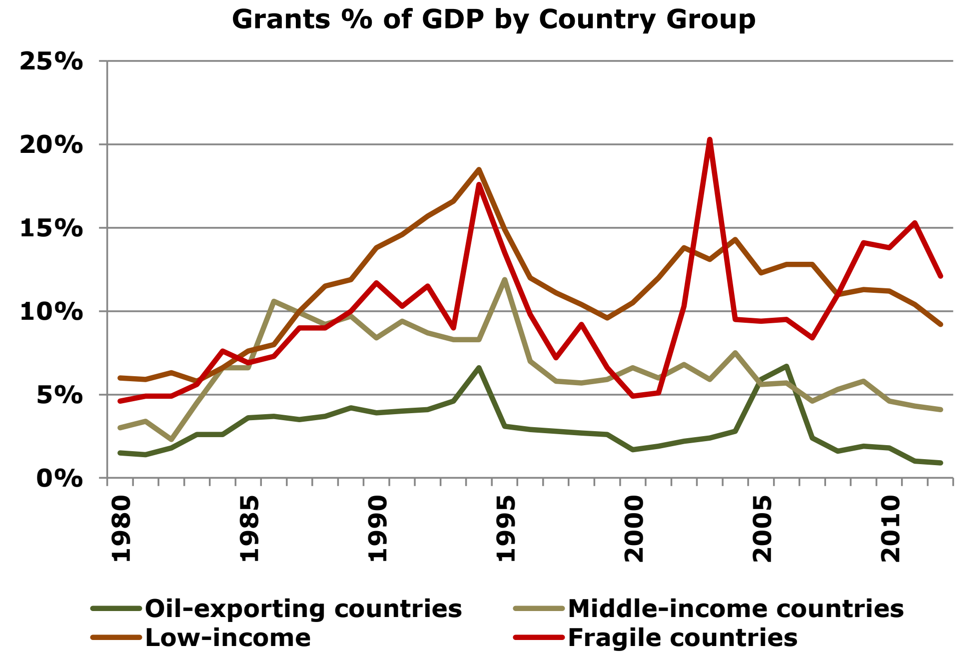
This time is different…

GRANTS AND GDP

1.2. And what about the past...



Source: IMF - World Economic Outlook

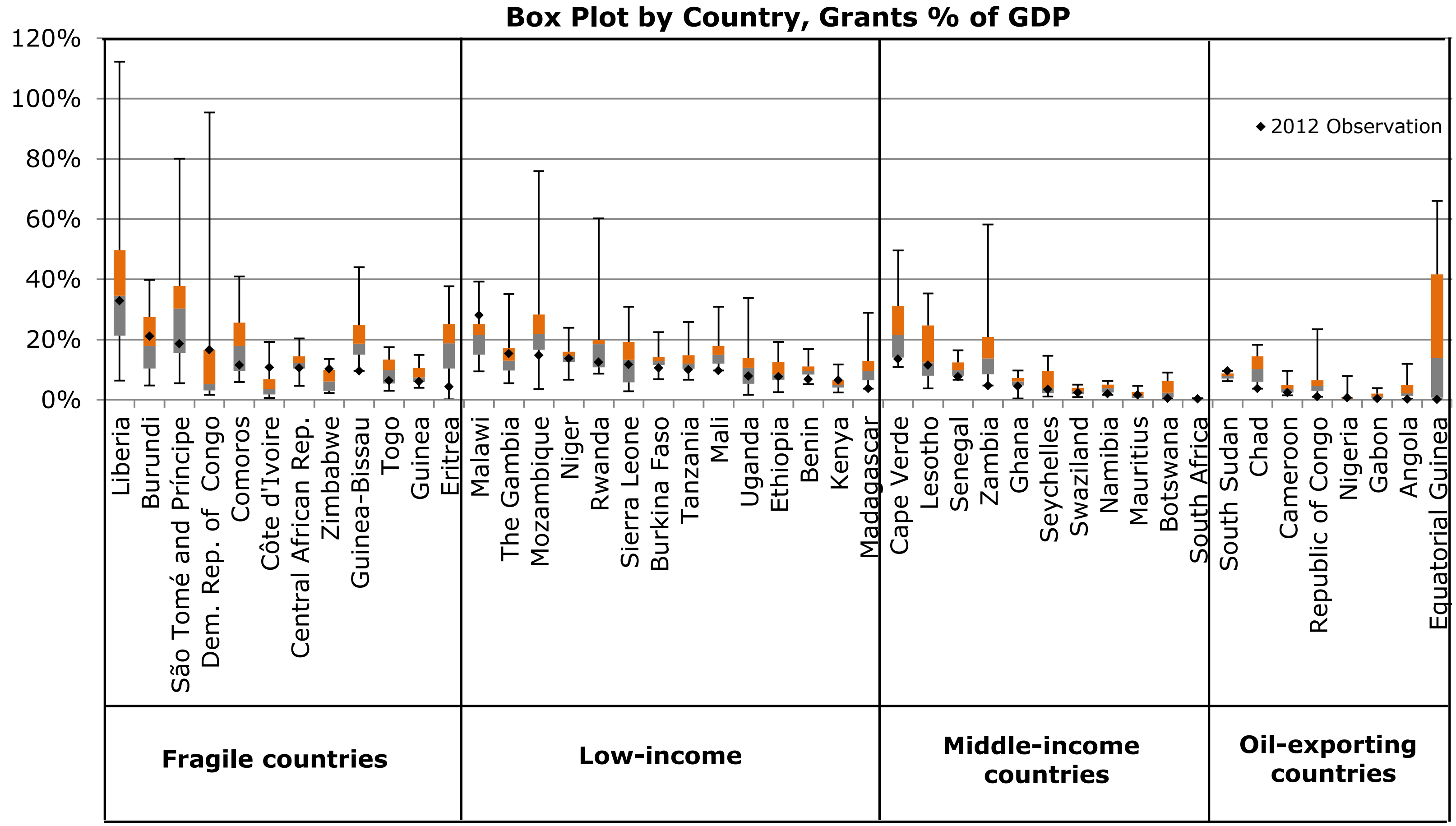


Source: IMF - World Economic Outlook, OECD – International Development Statistics

The decreasing dependency on grants is consistent for all the groups except for the fragile countries

GRANTS AND GDP

1.3. There's a lot of histories to tell…

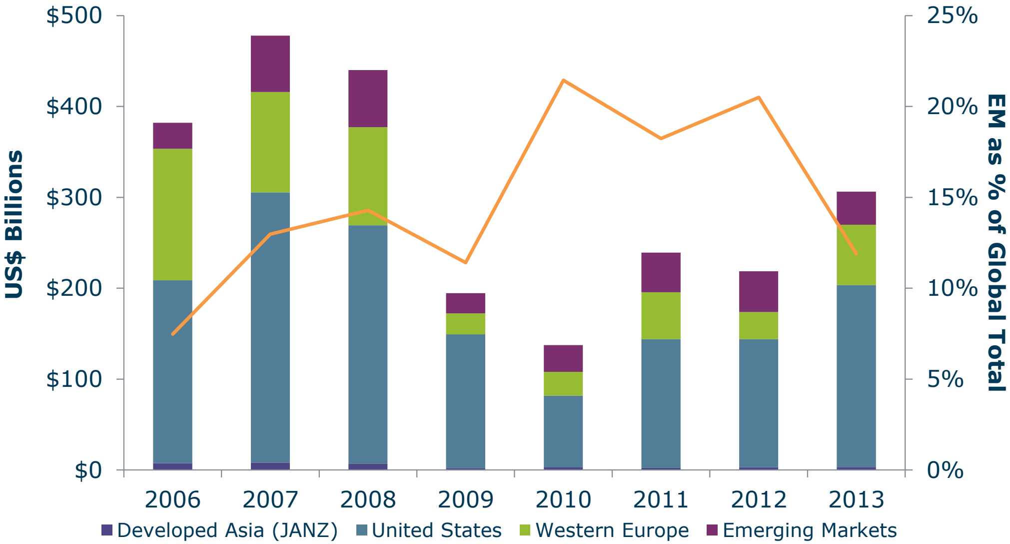


Source: IMF - World Economic Outlook, OECD – International Development Statistics

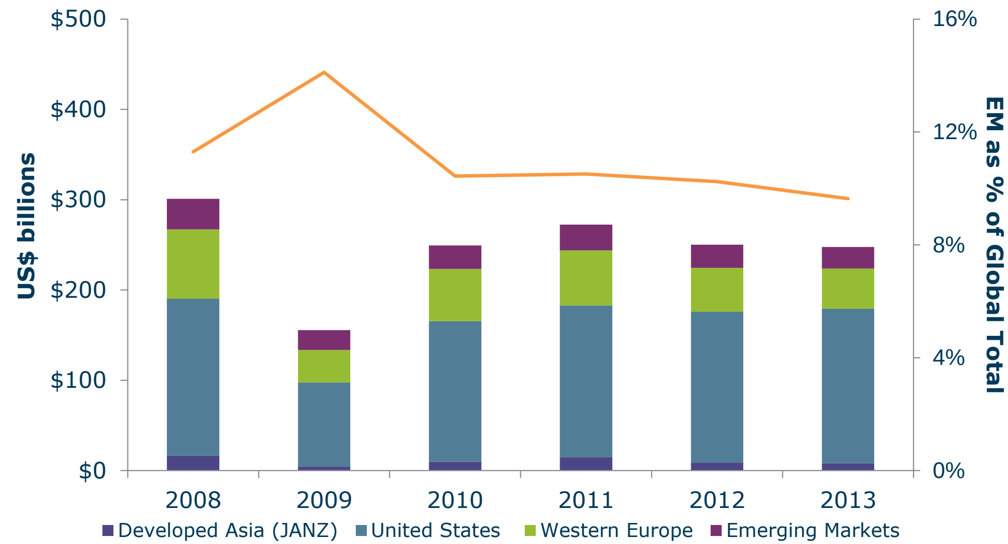
PRIVATE EQUITY

2.1. Private Equity Investment in Emerging Markets

EM as % of global PE Fundraising



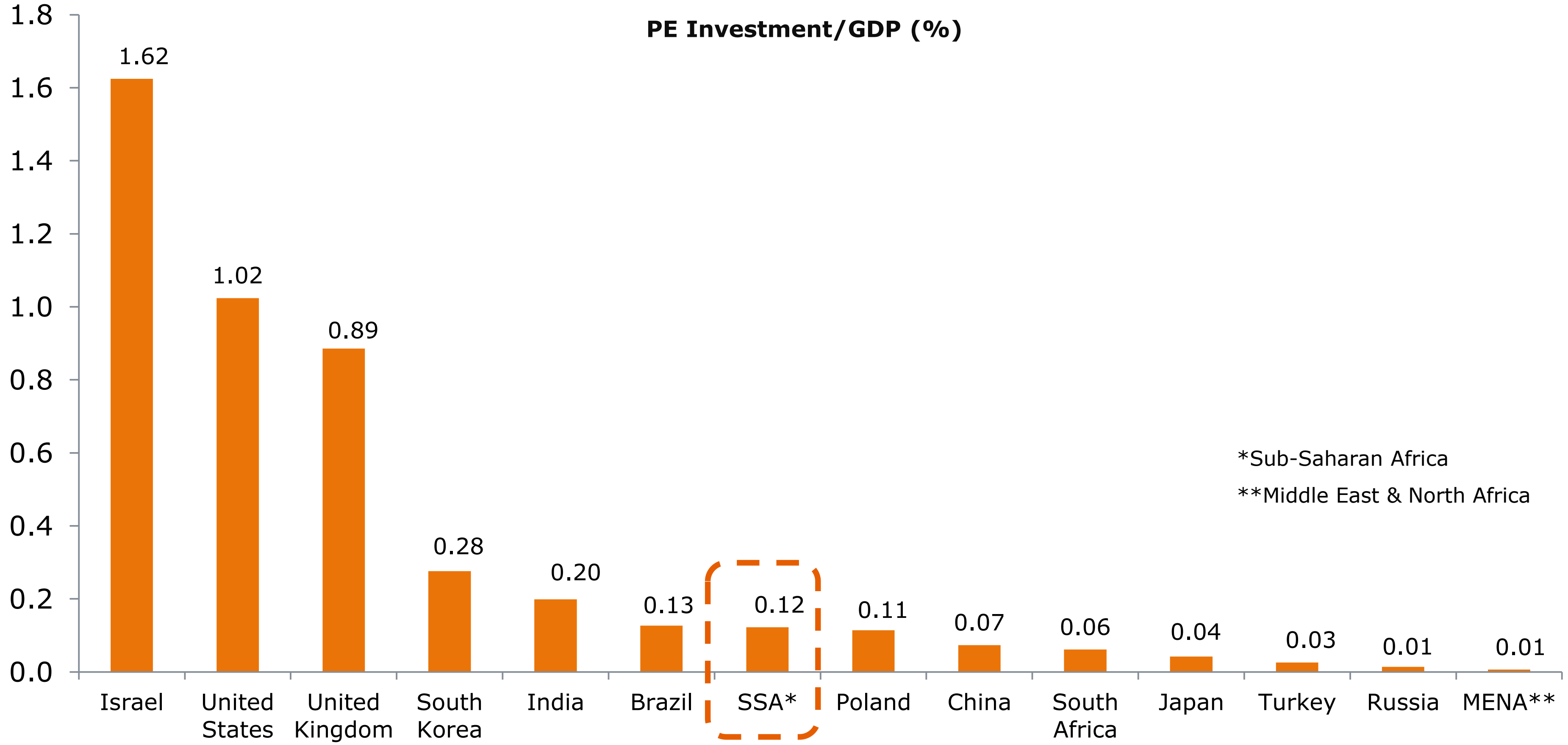
EM as % of global PE Investment



Sources: Developed Asia - Asia Private Equity Review, U.S. – PitchBook, Western Europe – European Venture Capital Association, EM – EMPEA

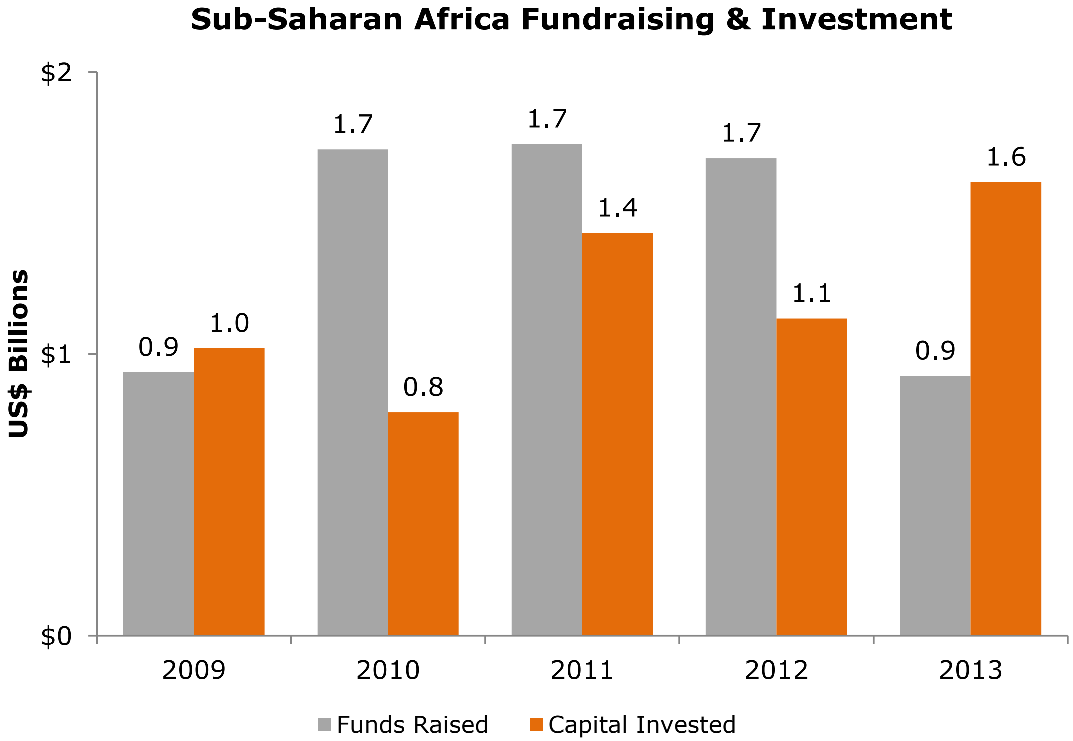
PRIVATE EQUITY

2.1. Global Private Equity Penetration



Sources:
Emerging Markets – FundLink, EMPEA's; United Kingdom – Centre for Management Buy-Out Research; Israel – Israel Venture Capital Research Center; Japan – Asia Private Equity; International Monetary Fund

2.2. Private Equity Investment in Sub-Saharan Africa

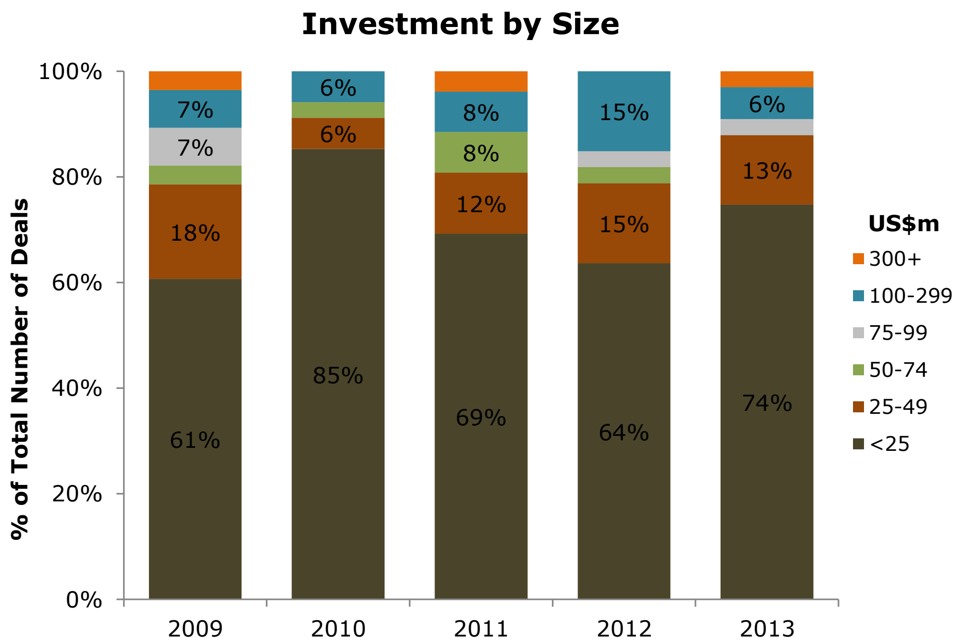


Source: Emerging Markets Private Equity Association

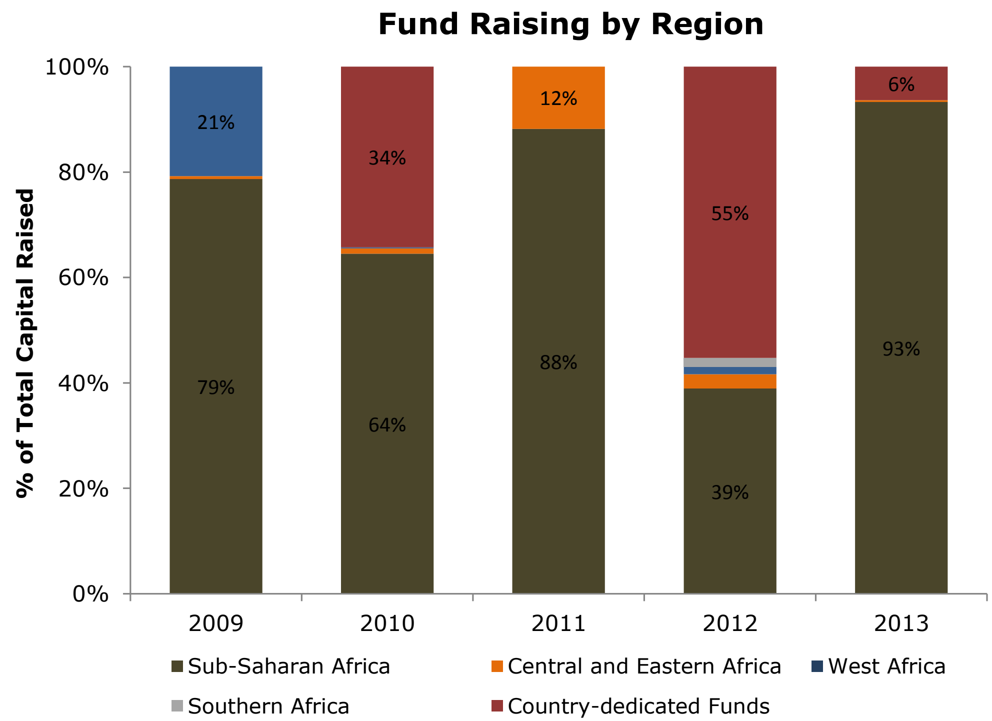
- Sub-Saharan Africa **attracted $1.6 billion** of private equity investment in 2013, **the most in five years**, with the East Africa region experiencing the biggest increase in deal activity
- This **contrasts with emerging markets** as a whole, which saw a 7 percent year-on-year decline in capital flow to $24 billion.
- As **one of the world's fastest growing regions**, sub-Saharan Africa has caught the attention of private equity investors who have been encouraged by **rising consumer spending** and **natural resource discoveries**
- Given the **limited number of listed companies** and **low liquidity** in **stock markets** outside Johannesburg, Lagos and Nairobi, the asset class also offers investors greater exposure to fast-growing sectors

PRIVATE EQUITY

2.2. Characterizing Private Equity Investment in Sub-Saharan Africa



Source: Emerging Markets Private Equity Association

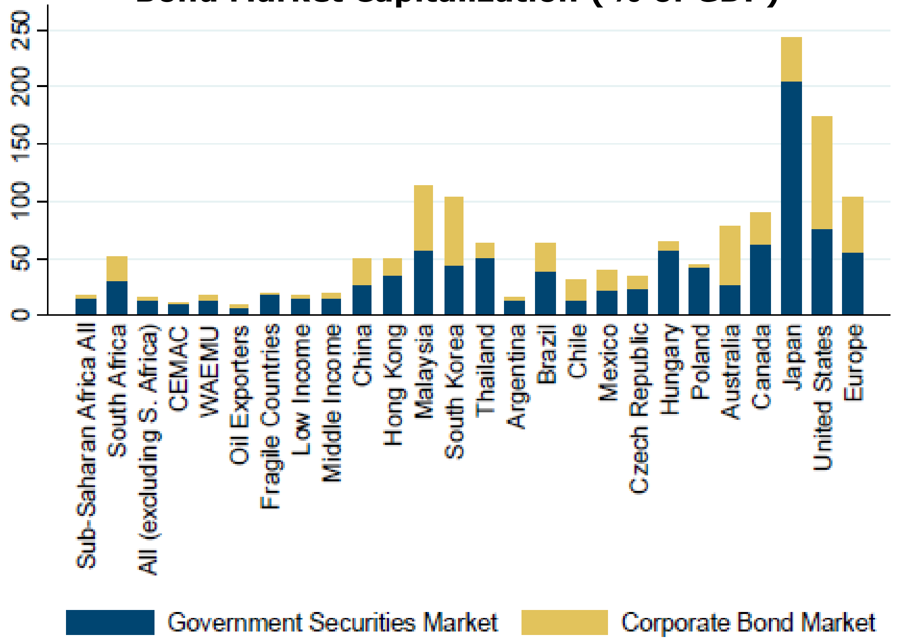


Source: Emerging Markets Private Equity Association

The market is characterized by small size deals

DEBT MARKETS

3.1. Bond Market Comparison, 2010

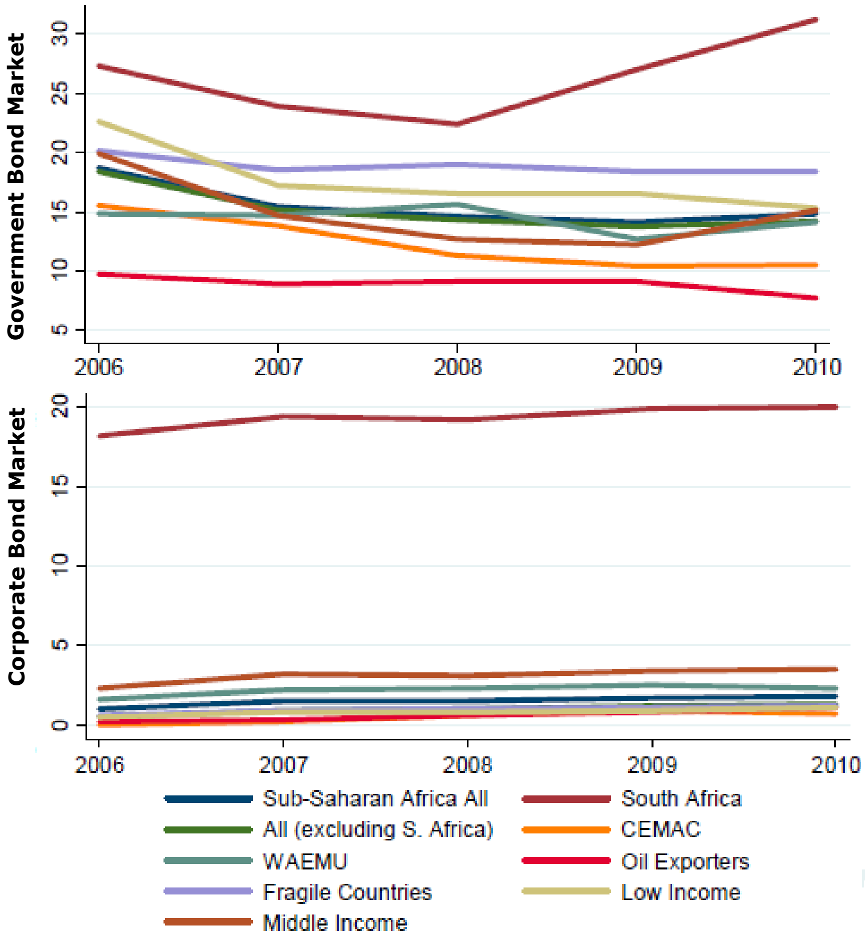


Source: IMF

Region	Country	Market Capitalization (percent of GDP)		Contribution to Total Domestic Debt (percent)	
		Government	Corporate	Government	Corporate
Developing Countries and Emerging Markets					
Africa	All	14.8	1.8	89.2	10.8
	South Africa (SA)	31.2	20.0	60.9	39.1
	All excluding SA	14.2	1.3	91.8	8.2
	CEMAC	10.5	0.7	93.8	6.3
	WAEMU	14.1	2.3	86.0	14.0
	Oil exporters	7.7	1.1	87.5	12.5
	Fragile countries	18.4	1.2	93.9	6.1
	Low income	15.3	1.1	93.3	6.7
	Middle income	15.1	3.5	81.2	18.8
Asia	China	27.3	22.8	54.5	45.5
	Hong Kong	35.9	13.8	72.2	27.8
	Malaysia	57.3	57.0	50.2	49.8
	South Korea	43.8	59.5	42.4	57.6
	Thailand	50.5	12.8	79.7	20.3
Latin America	Argentina	13.3	2.6	83.7	16.3
	Brazil	39.4	22.7	63.4	36.6
	Chile	13.1	17.0	43.5	56.5
	Mexico	22.6	17.1	56.9	43.1
Central Europe	Czech Republic	23.3	11.2	67.5	32.5
	Hungary	57.3	7.0	89.1	10.9
	Poland	42.6	1.8	95.9	4.1
Developed Countries					
Global	Australia	27.4	51.0	35.0	65.0
	Canada	63.2	26.5	70.5	29.5
	Japan	205.4	37.8	84.5	15.5
	United States	75.7	98.6	43.4	56.6
	Europe	55.8	46.4	54.6	45.4

3.2. Sub-Saharan African Bond Market Capitalization, 2006-2010

Bond Market Capitalization (% of GDP)



Source: IMF

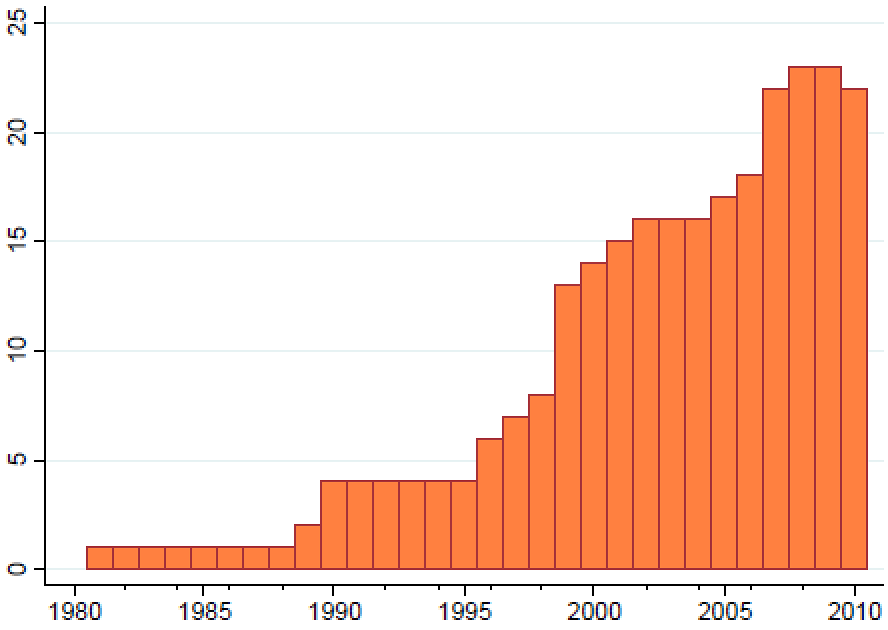
	Group	Year 2006	2007	2008	2009	2010
Government Securities Market Capitalization (percent of GDP)	All	18.7	15.4	14.6	14.1	14.8
	South Africa (SA)	27.3	23.9	22.4	27.0	31.2
	All excluding SA	18.4	15.1	14.3	13.7	14.2
	CEMAC	15.5	13.8	11.3	10.4	10.5
	WAEMU	14.8	14.7	15.6	12.7	14.1
	Oil exporters	9.7	8.9	9.1	9.1	7.7
	Fragile countries	20.1	18.5	19.0	18.4	18.4
	Low income	22.6	17.2	16.5	16.5	15.3
	Middle income	19.9	14.7	12.7	12.2	15.1
Corporate Bond Market Capitalization (percent of GDP)	All	1.0	1.5	1.5	1.7	1.8
	South Africa	18.2	19.4	19.2	19.9	20.0
	All excluding SA	0.5	0.9	1.0	1.2	1.3
	CEMAC	0.0	0.2	0.6	0.9	0.7
	WAEMU	1.6	2.2	2.3	2.5	2.3
	Oil exporters	0.2	0.3	0.6	0.8	1.1
	Fragile countries	0.6	0.9	1.0	1.1	1.2
	Low income	0.5	0.8	0.8	0.9	1.1
	Middle income	2.3	3.2	3.1	3.4	3.5
Contribution of Corporate Bonds to Total Bonds (percent)	All	5.1	8.9	9.3	10.8	10.8
	All excluding SA	2.7	5.9	6.7	7.8	8.2
	South Africa	39.9	44.7	46.1	42.4	39.1
	CEMAC	0.0	1.4	5.0	8.0	6.3
	WAEMU	9.8	13.0	12.8	16.4	14.0
	Oil exporters	2.0	3.3	6.2	8.1	12.5
	Fragile countries	2.9	4.6	5.0	5.6	6.1
	Low income	2.2	4.4	4.6	5.2	6.7
	Middle income	10.4	17.9	19.6	21.8	18.8

BPI

DEBT MARKETS

3.3. Sub-Saharan African Corporate Bond Market

Number of Active Markets



Source: IMF, BIS

Country	Securities Exchange	Activity	Source
Botswana	Botswana Stock Exchange	1997–2010	MCM (2009), Botswana Stock Exchange
Cameroon	Dar es Salaam Stock Exchange,	2005–2010	African Development Bank
Cape Verde	Bolsa de Valores de Cabo Verde	2007–2010	Bolsa de Valores de Cabo Verde
CAR[2]	BVMAC	2007–2010	African Development Bank
Chad	BVMAC	2007–2010	African Development Bank
Congo, Rep.	BVMAC	2007–2010	African Development Bank
Cote d'Ivoire	BRVM[3]	1999–2010	BRVM Regional Securities Exchange
Ethiopia	None	2006–2010	National Bank of Ethiopia
Gabon	BVMAC	2007–2010	African Development Bank
Ghana	Ghana Stock Exchange	1996–2010	Ghana Securities Exchange Commission
Guinea-Bissau	BRVM	1999–2010	BRVM Regional Securities Exchange
Kenya	Nairobi Stock Exchange	1996–2010	Kenya Capital Markets Authority
Mali	BRVM	1999–2010	BRVM Regional Securities Exchange
Mauritius	Stock Exchange of Mauritius	1990–2006	Mauritius Stock Exchange
Namibia	Namibia Stock Exchange	2001–2010	Bank of Namibia, Namibian Stock Exchange
Nigeria	Nigerian Stock Exchange	1981–2010	MCM (2009), Securities Exchange Commission
Rwanda	Rwanda Stock Exchange	2008–2010	Rwanda Stock Exchange
Senegal	BRVM	1999–2010	BRVM Regional Securities Exchange
South Africa	Bond Exchange of South Africa	1989–2010	Bank for International Settlements
Swaziland	Swaziland Stock Exchange	1990–2010	Central Bank of Swaziland
Tanzania	Dar es Salaam Stock Exchange	2002–2010	MCM (2009), Dar es Salaam Stock Exchange
Togo	BRVM	1999–2010	BRVM Regional Securities Exchange
Uganda	Uganda Securities Exchange	1998–2010	Uganda Capital Markets Authority
Zambia	Lusaka Stock Exchange	2000–2010	Lusaka Stock Exchange

DEBT MARKETS

3.4. Sovereign Debt Ratings Comparison (Foreign Currency Long Term)

Sub-Saharan African

	MOODYS	S&P	FITCH
Angola	Ba3	BB-	BB-
Botswana	A2	A-	NR
Burkina Faso	NR	B	NR
Cameroon	NR	B	NR
Cape Verde	NR	B	B+
Gabon	NR	BB-	BB-
Ghana	B1	B	B
Kenya	B1	B+	B+
Lesotho	NR	NR	BB-
Mauritius	Baa1	NR	NR
Mozambique	B1	B	B+
Namibia	Baa3	NR	BBB-
Nigeria	Ba3	BB-	BB-
Republic of Congo	Ba3	B+	B+
Republic of Zambia	B1	B+	B
Rwanda	NR	B	B
Senegal	B1	B+	NR
Seychelles	NR	NR	B
South Africa	Baa1	BBB	BBB
Uganda	B1	B	B

South America

	MOODYS	S&P	FITCH
Argentina	B3	CCC+u	CC
Brazil	Baa2	BBB	BBB
Colombia	Baa3	BBB	BBB
Uruguay	Baa3	BBB-	BBB-

Source: Bloomberg

Europe

	MOODYS	S&P	FITCH
Austria	Aaa	AA+	AAA
Belgium	Aa3	AAu	AA
Finland	Aaa	AAA	AAA
France	Aa1	AAu	AA+
Germany	Aaa	AAAu	AAA
Greece	Caa3	B-	B-
Ireland	Baa3	BBB+	BBB+
Italy	Baa2	BBB u	BBB+
Netherlands	Aaa	AA+u	AAA
Portugal	Ba3	BB	BB+
Spain	Baa2	BBB-	BBB
United Kingdom	Aa1	AAAu	AA+

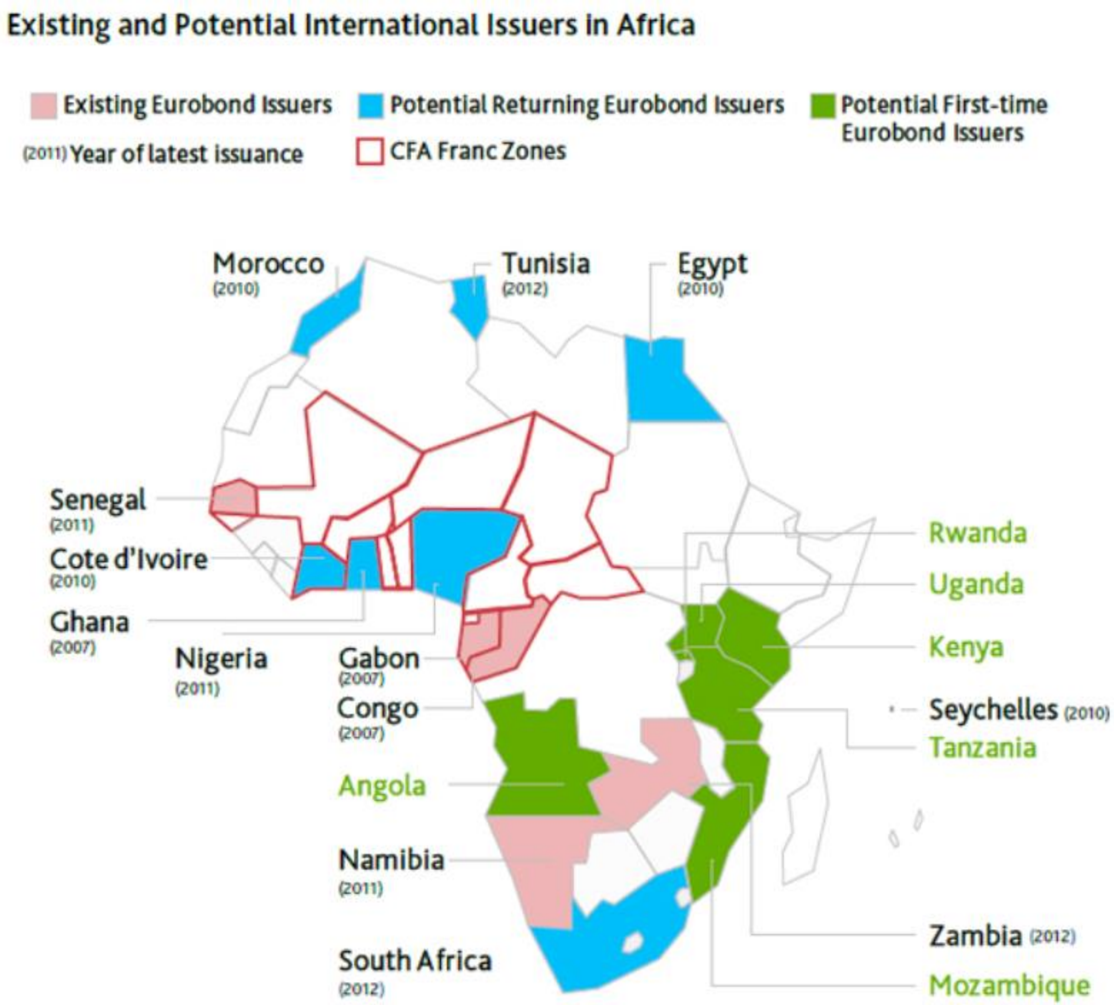
North and Central America

	MOODYS	S&P	FITCH
Canada	Aaa	AAA	AAA
USA	Aaa	AA+u	AAA-
Mexico	A3	BBB+	BBB+

Asia

	MOODYS	S&P	FITCH
Australia	Aaa	AAAu	AAA
China	Aa3	AA-	A+
India	Baa3	BBB- u	BBB-
Japan	Aa3	AA- u	A+
Singapore	Aaa	AAAu	AAA

DEBT MARKETS



In Financial Times, Africa: set for a sovereign debt rush?
by Rob Minto, Oct 15, 2012

DEBT MARKETS

Table 4

Eurobonds Issued in Sub-Saharan Africa (excl. South Africa)

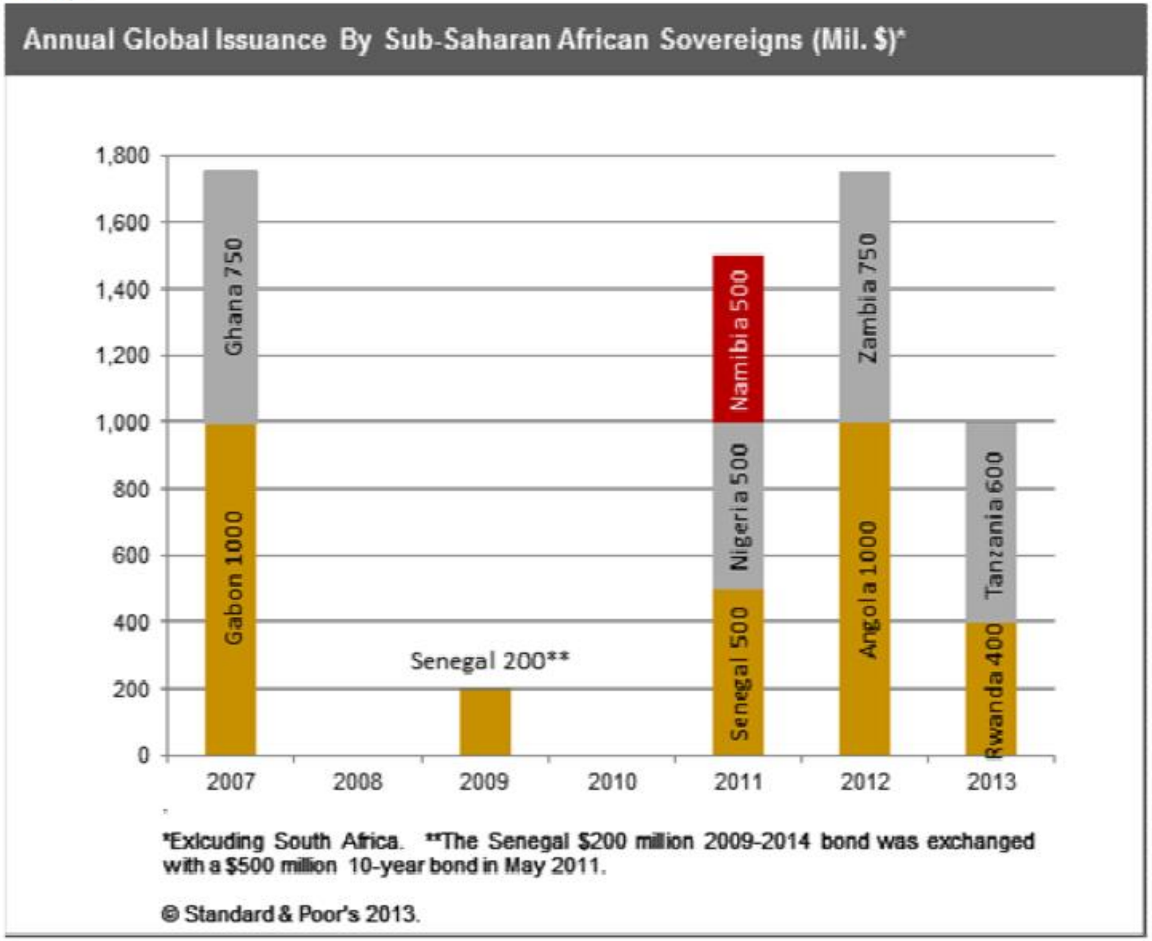
	Amount Issued ($ mn)	Coupon (%)	Issue Date	Maturity	Spread at Issuance	Rating at Issuance*
Ghana	750	8.50	10/4/2007	10 years	387	B+
Rep. of Congo	478	3.00	12/7/2007	22 years	451	--
Gabon	1,000	8.20	12/12/2007	10 years	426	BB-
Seychelles	169	5.00	2/11/2010	16 years	861	--
Côte d'Ivoire	2,332	3.75	4/16/2010	22 years	445	--
Nigeria	500	6.75	1/28/2011	10 years	307	BB-
Senegal	500	8.75	5/13/2011	10 years	596	B+ (S&P)
Namibia	500	5.50	11/3/2011	10 years	336	BBB-
Zambia	750	5.38	9/20/2012	10 years	384	B+

Source: Bloomberg
* Fitch unless otherwise indicated

In IIF REGIONAL OVERVIEW, Sub-Saharan Africa: Growing Strong, Challenges Ahead
November 6, 2012

DEBT MARKETS

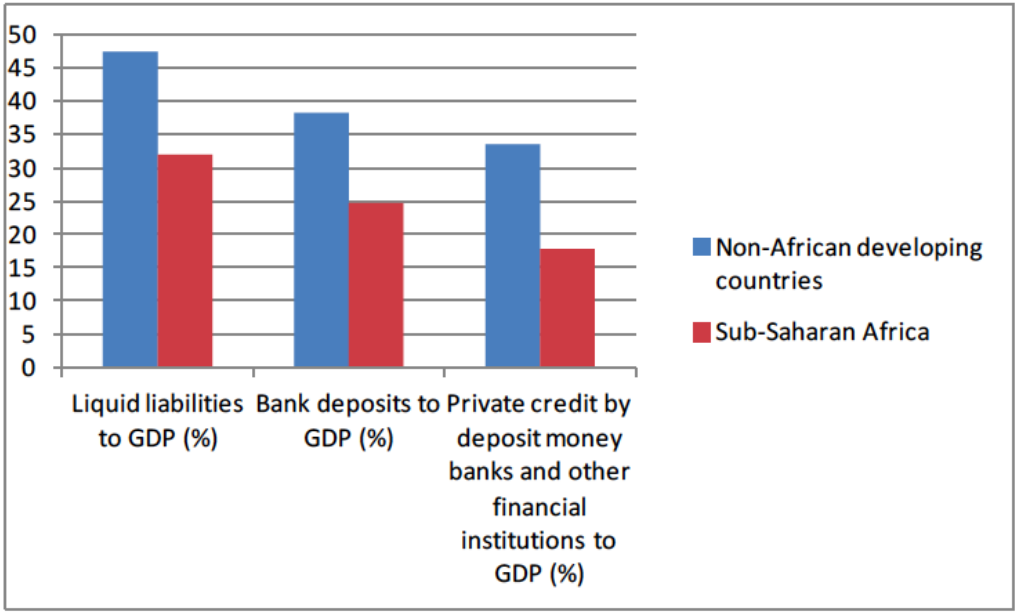
Chart 1



In Standard & Poor´s, The Growing Allure Of Eurobonds For African Sovereigns, 06-May-2013

BANKING SYSTEM

Figure 1: Aggregate Financial Development in International Comparison

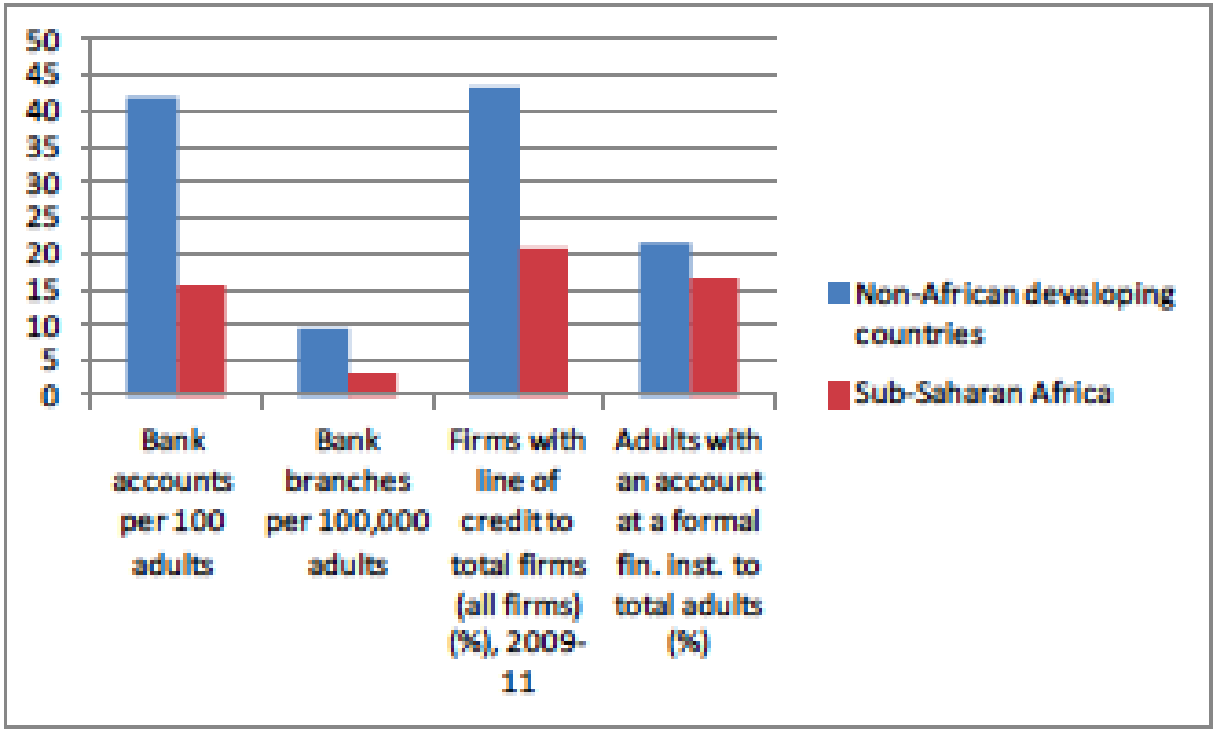


Source: Global Financial Development Indicators, World Bank

In Thorsten Beck Robert Cull, Banking in Africa, The World Bank, Development Research Group, Finance and Private Sector Development Team, October 2013

BANKING SYSTEM

Figure 3: Access to and Use of Financial Services in International Comparison

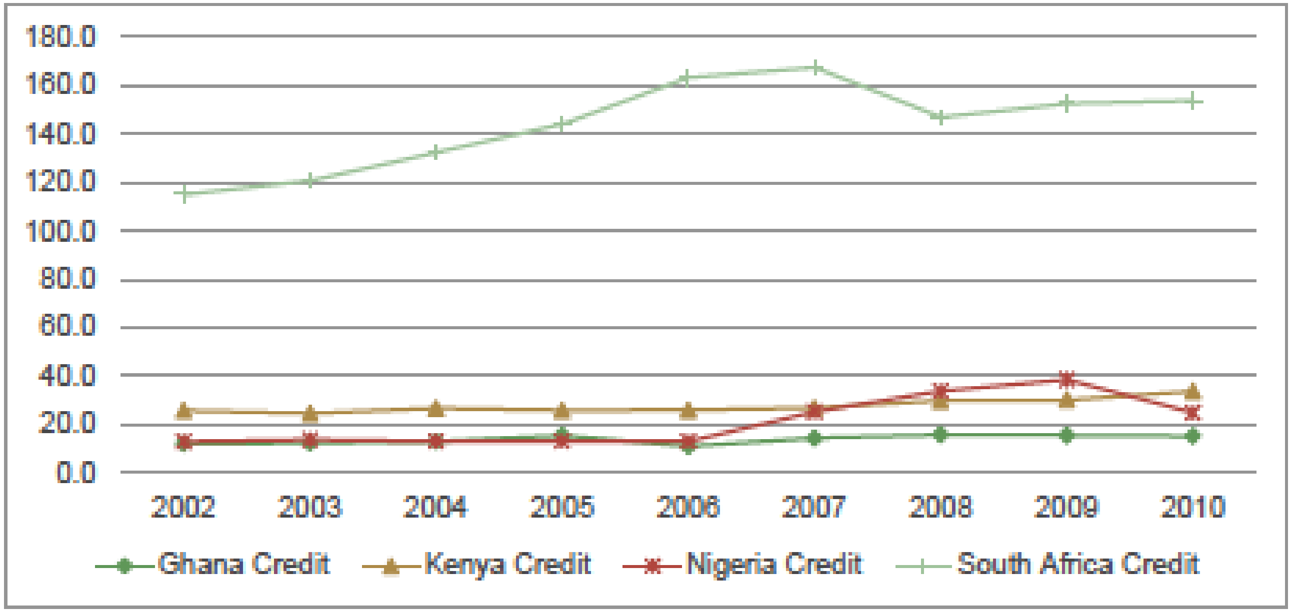


Source: Global Financial Development Indicators, World Bank

In Thorsten Beck Robert Cull, Banking in Africa, The World Bank, Development Research Group, Finance and Private Sector Development Team, October 2013

BANKING SYSTEM

Figure 2: Trends in domestic credit to private sector (% GDP)



Source: World Bank: African Development Indicators 2013; Bank of Ghana

In Dirk Willem te Velde and Stephany Griffith-Jones (eds), Sustaining growth and structural transformation in Africa: how can a stable and efficient financial sectorhelp?, Current policy and research debates, DEGRP Policy Essays: December 2013

SOME REMARKS FOR THOUGHT

- **Do we need Smarter Aid?**
  - Infrastructure financing *
    - Professionalisation of project management *
    - Streamline the system for slicing risk unrelated to a project's commercial viability, through a bigger and more standardised menu of credit enhancements and guarantees *
  - The first African sovereign debt management centre was created in 2011
    - The centre will encourage co-operation among African debt managers and
    - support the development of sound practices in public debt and cash management, in order to create stronger securities markets.
    - It will also encourage the implementation of a stronger infrastructure for government securities markets.

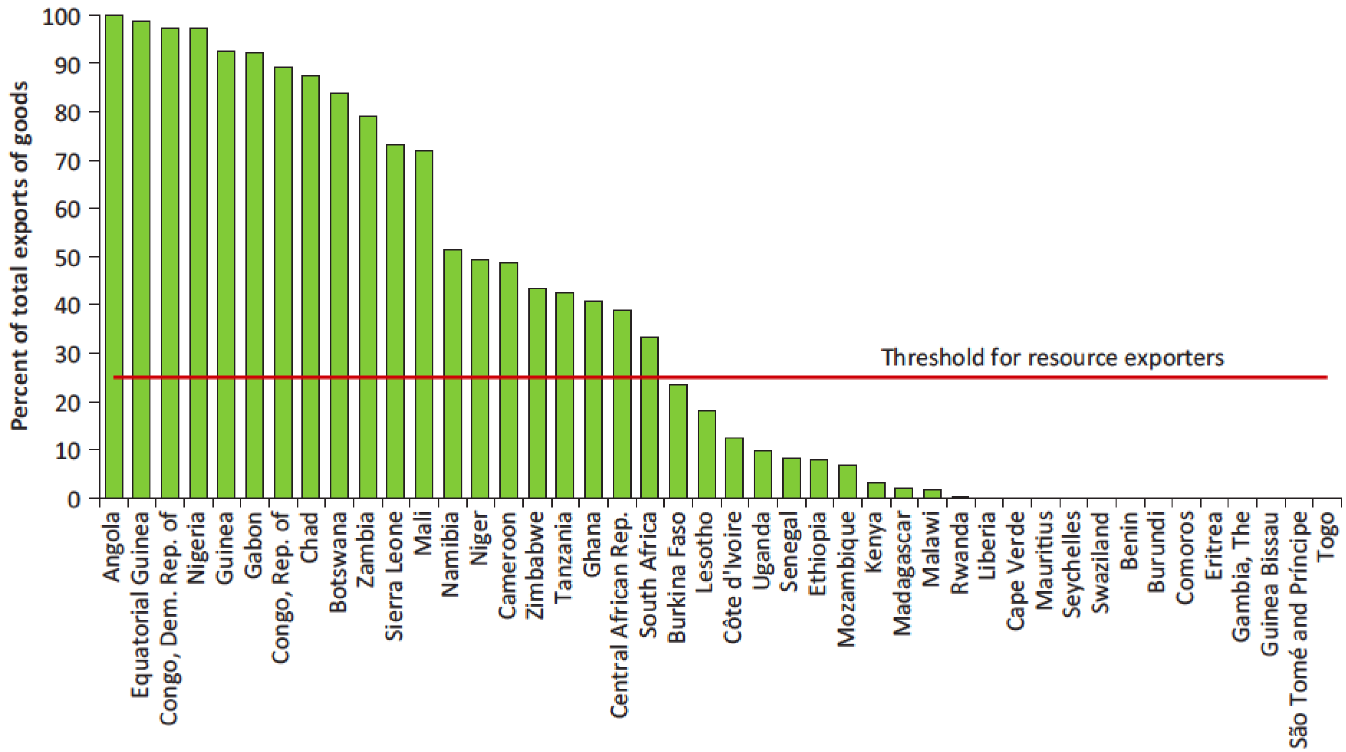
- **Is there room for Aid to Domestic Financial Markets?**
  - The case of Angola Investe

* *See* The Economist March 22nd 2014, Investing in infrastructure, The trillion-dollar gap
How to get more of the world's savings to pay for new roads, airports and electricity

Source: Bloomberg

Thank you

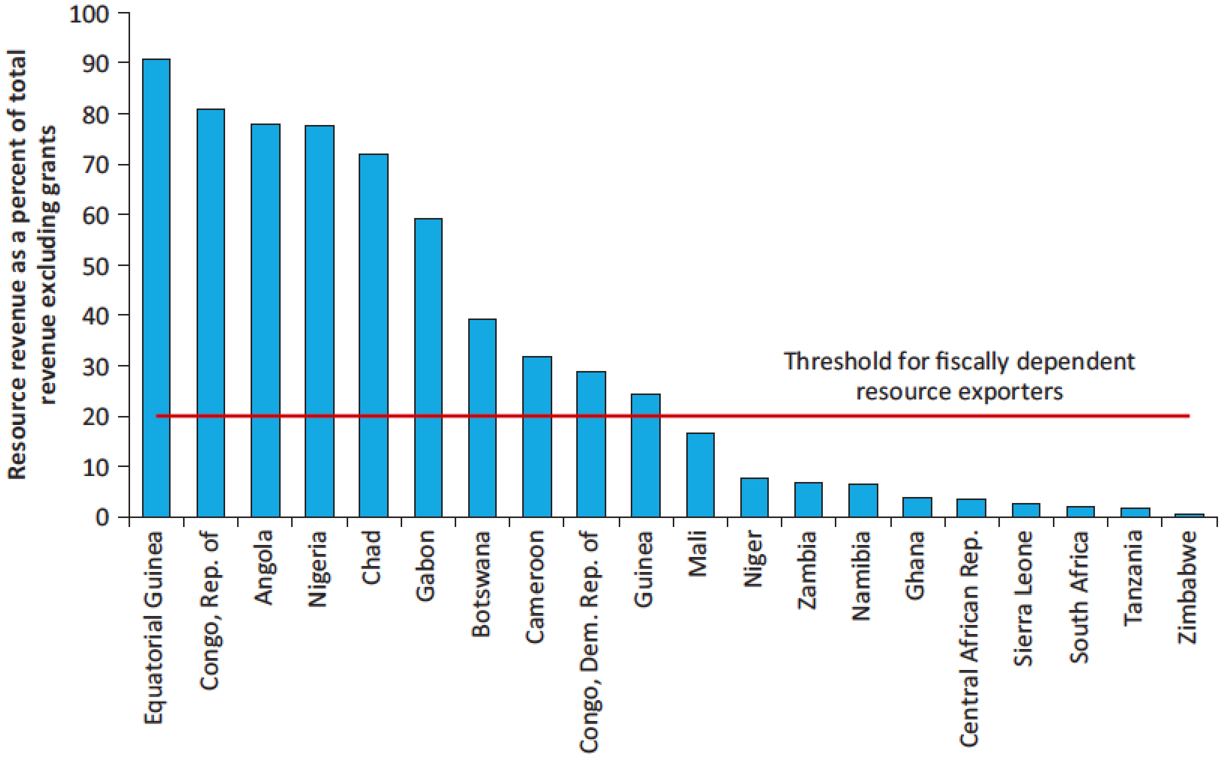
Figure 2.1.1. Sub-Saharan Africa: Resource Exports, Average 2005–10[1]



Source: IMF, African Department database.

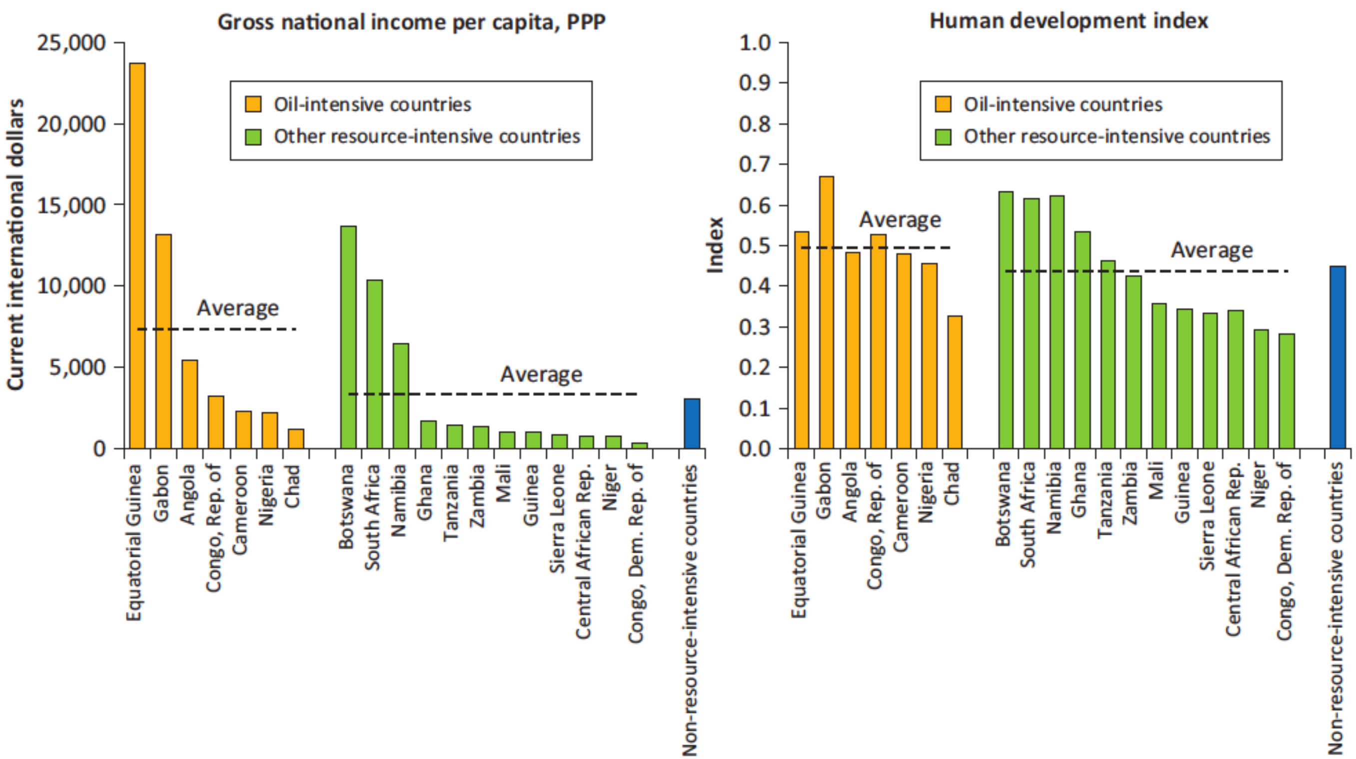
[1]Data for Côte d'Ivoire and Senegal exclude re-exports of refined oil products.

Figure 2.1.2. Sub-Saharan African Resource-Intensive Countries: Resource Revenue, Average 2005–10



Source: IMF, African Department database.

Figure 2.5. Sub-Saharan Africa: Selected Development Indicators, 2010



Source: World Bank, World Development Indicators.

Note: PPP = purchasing power parity.