



# Sub-Saharan Africa

## A bright spot in spite of key challenges

*Passion to Perform*



# Agenda



1

Economic growth

2

Social development still low

3

Population growth

4

Managing resource wealth

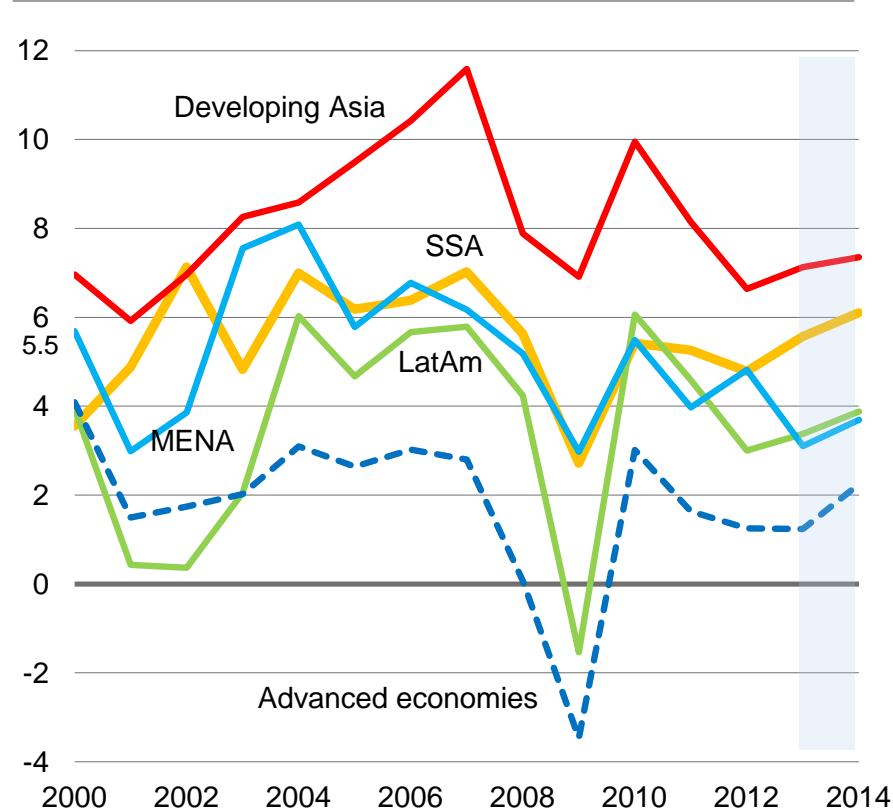
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Governance, business climate

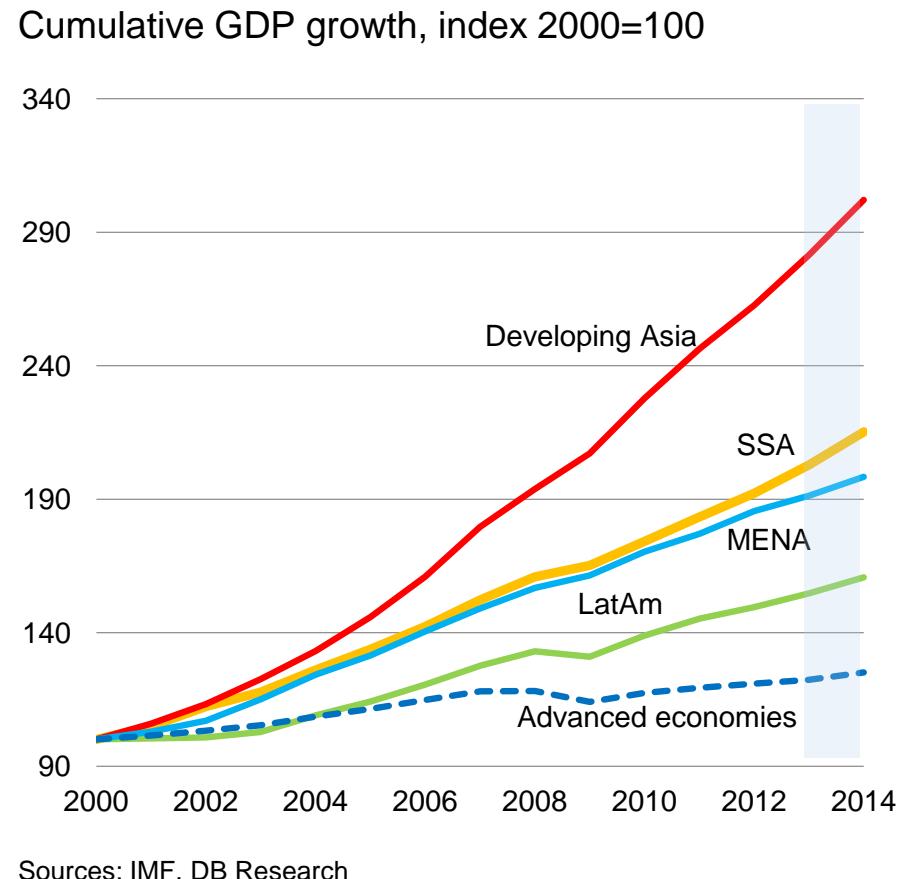
# A decade of strong economic growth set to continue



## Real GDP growth, % yoy



## Second only to developing Asia



Sources: IMF, DB Research

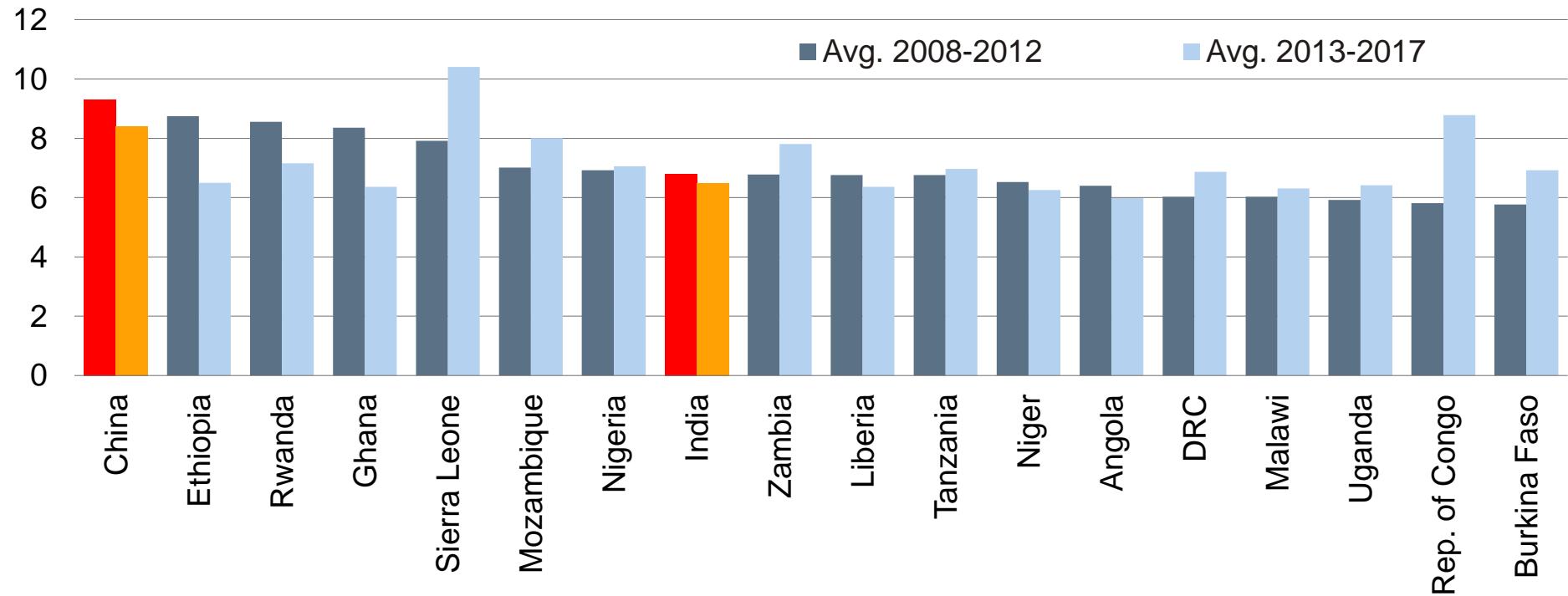
Sources: IMF, DB Research

# Robust growth increasingly spread over countries



## Fastest-growing SSA economies over the last 5 years

Real GDP growth, % yoy



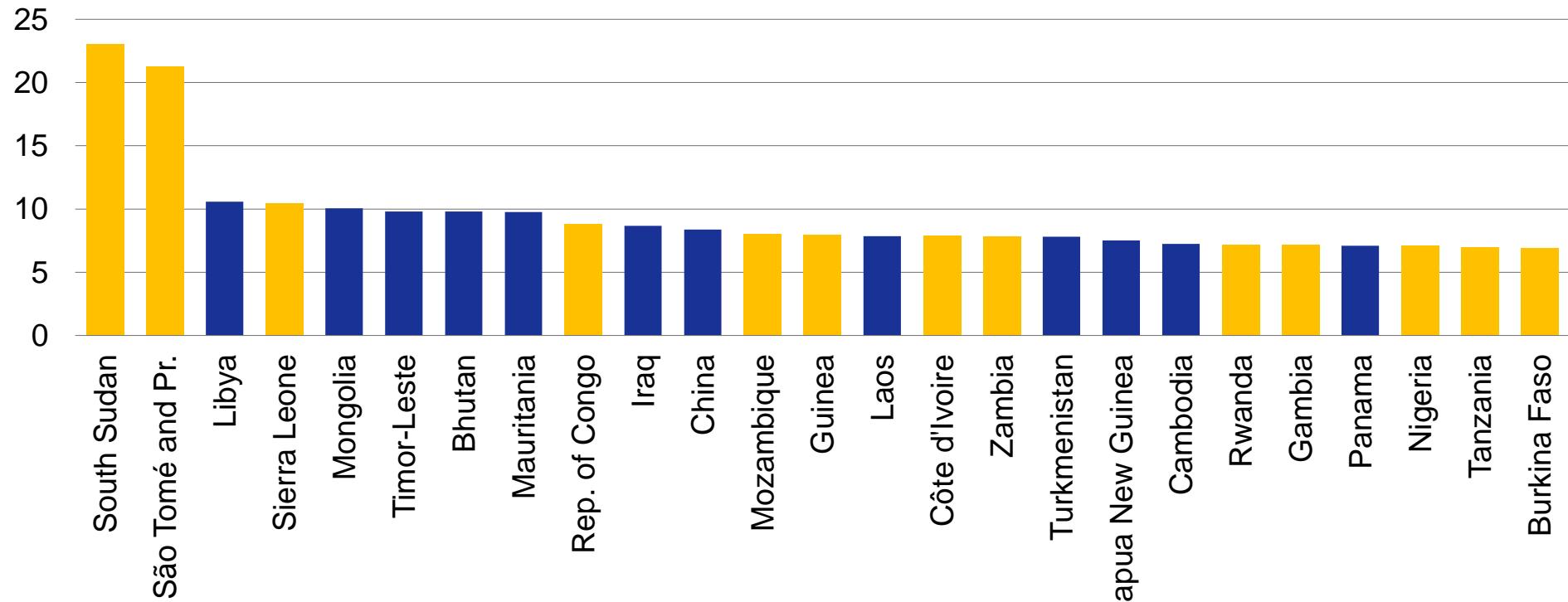
Sources: IMF, DB Research

# Among the fastest growing in the world



## World's fastest growing over the next five years

GDP growth, %, 2013-2017



Sources: IMF, DB Research

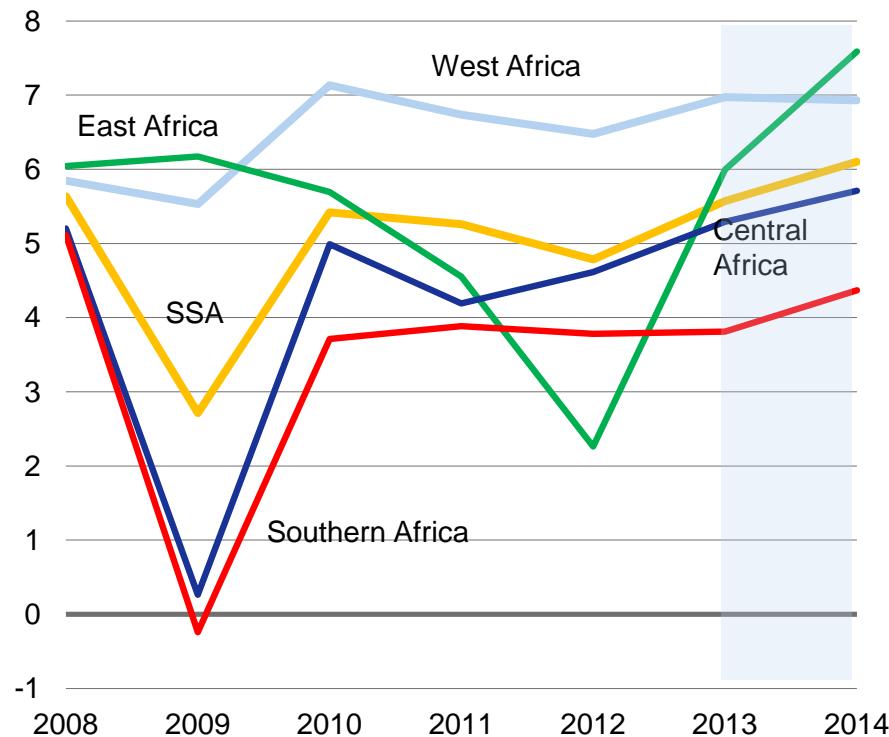
SSA: USD 1.3 trillion in 2012 → USD 2 trillion in 5 years

# East, West, oil and more



## Regional differences

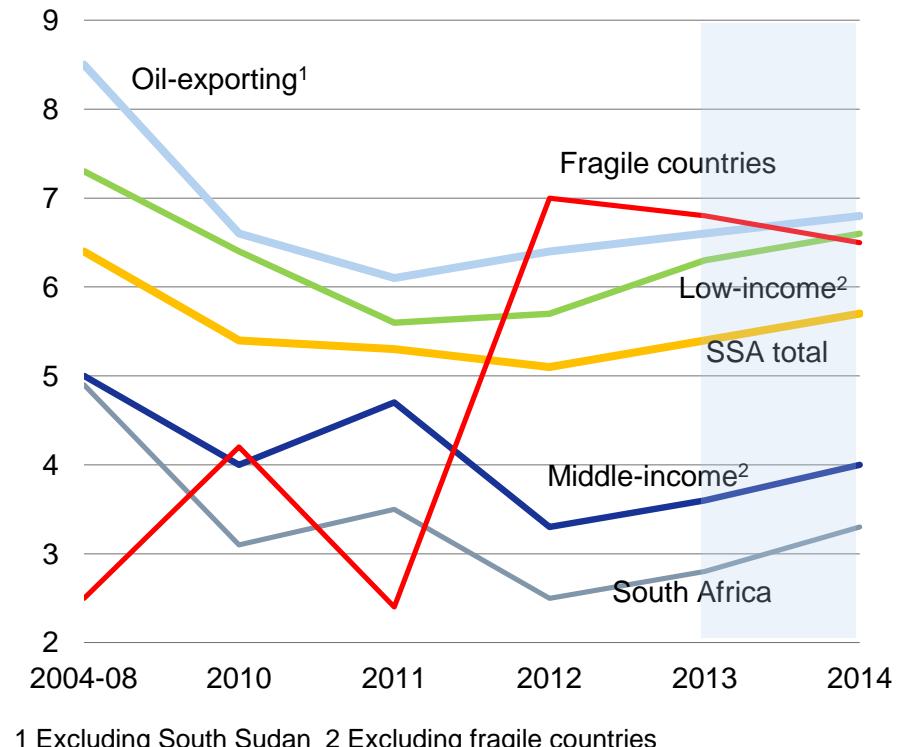
Real GDP growth yoy, %



Sources: IMF, DB Research

## Country groupings

Real GDP growth, % yoy



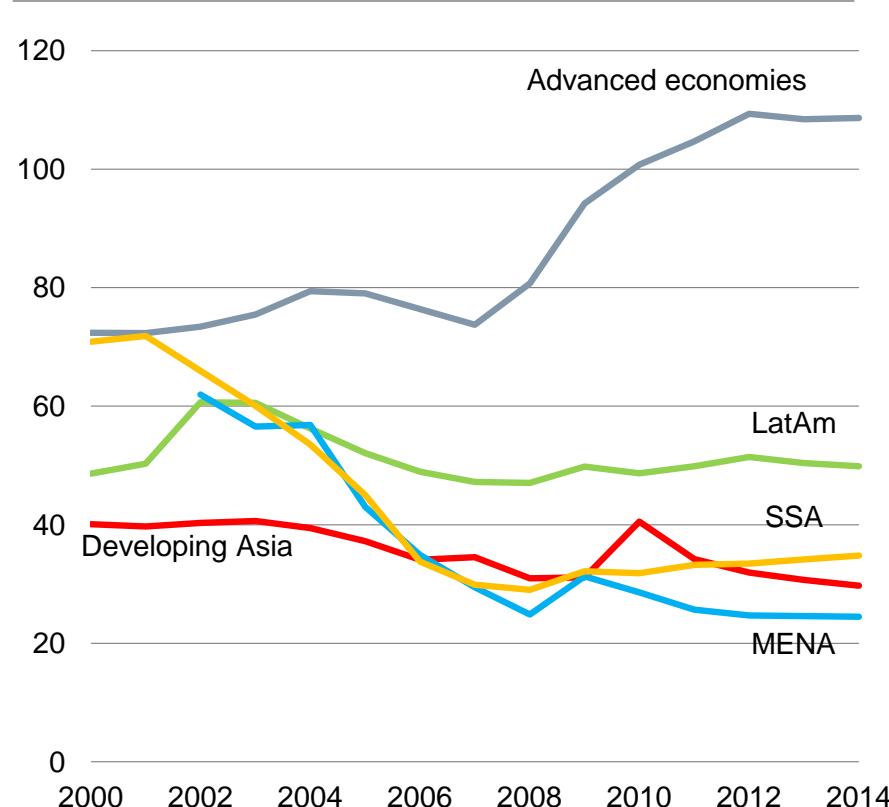
1 Excluding South Sudan 2 Excluding fragile countries

Sources: IMF, DB Research

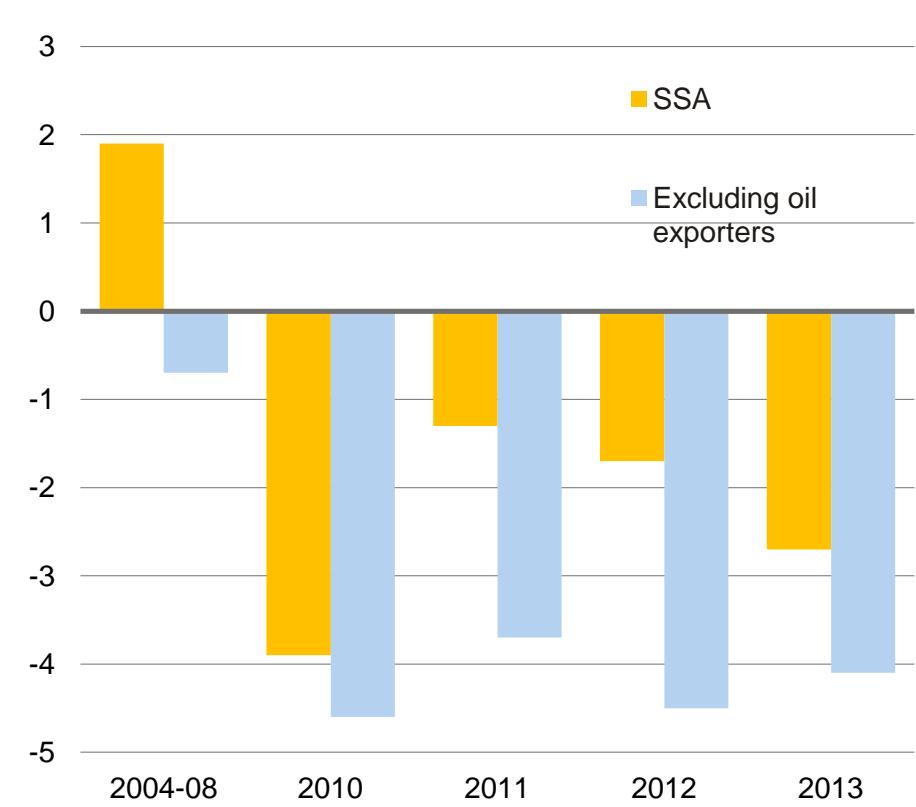
# General improvement in public finances but fiscal balances are mostly negative



## Gross government debt, % GDP



## Fiscal balance, % GDP



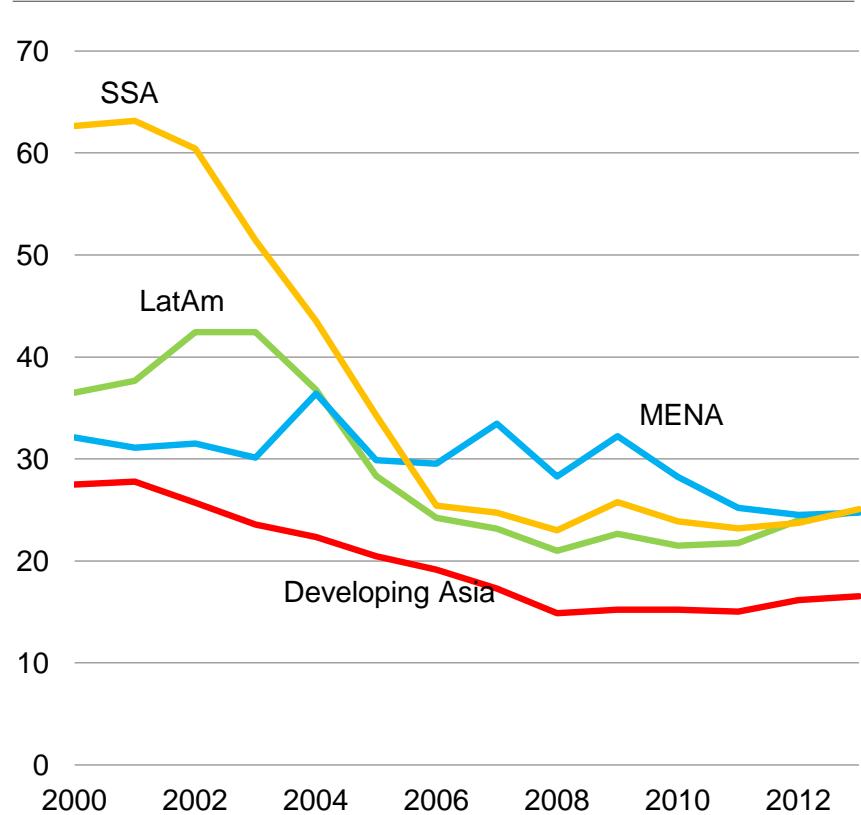
Source: IMF

Source: IMF

# External sector: current accounts under pressure

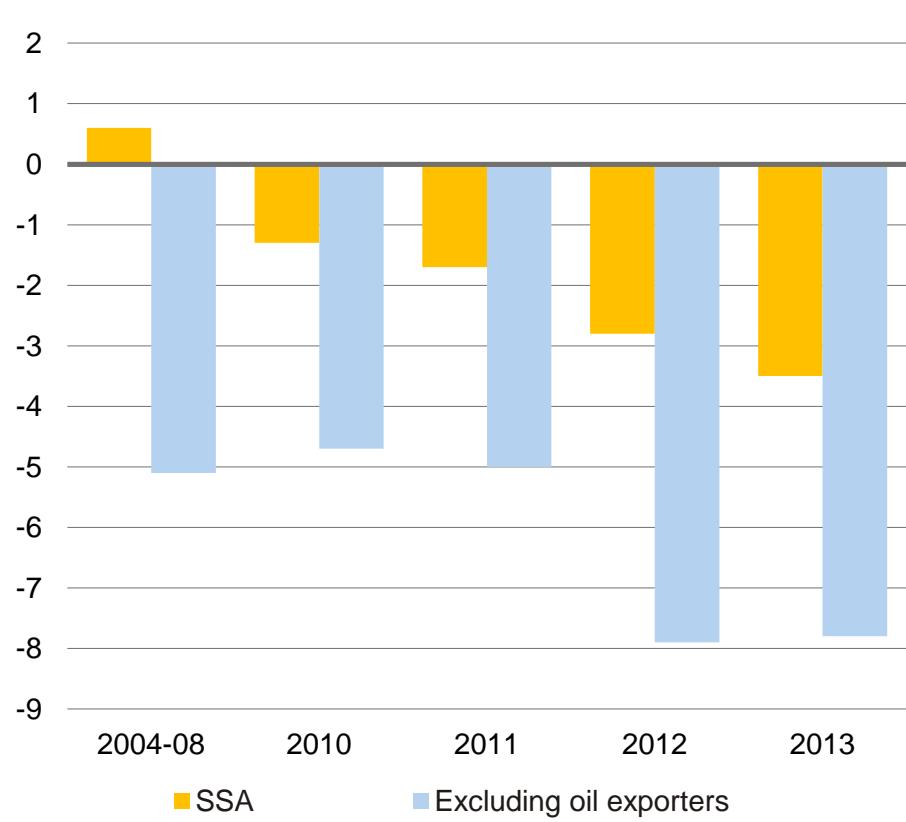


## Net external debt, % GDP



Source: IMF

## Current account balance, % GDP

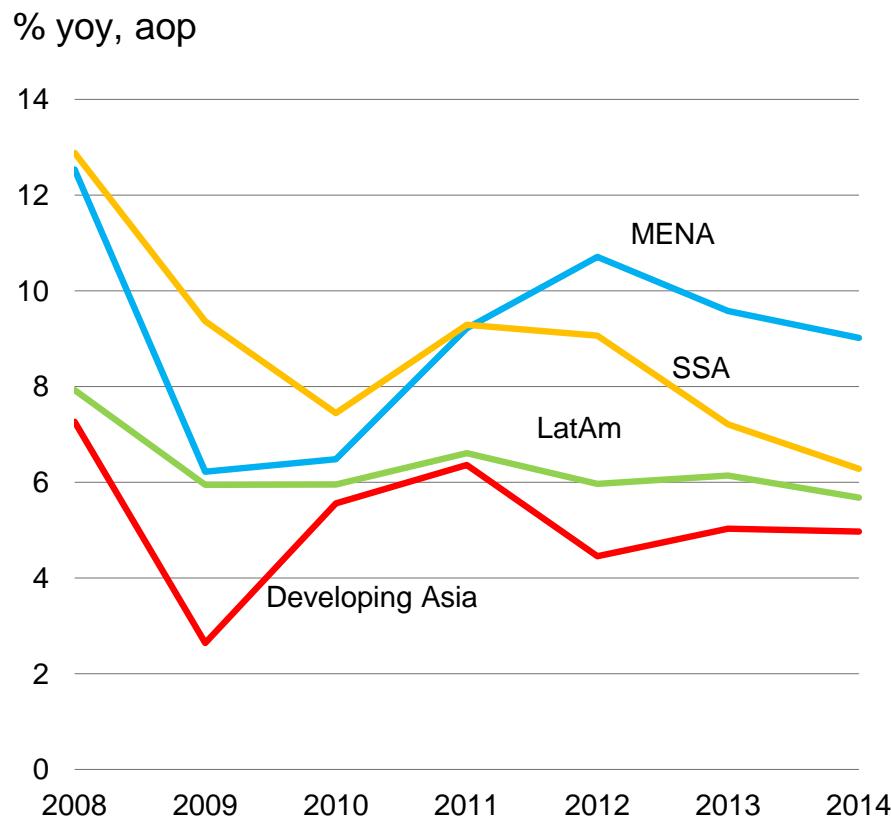


Source: IMF

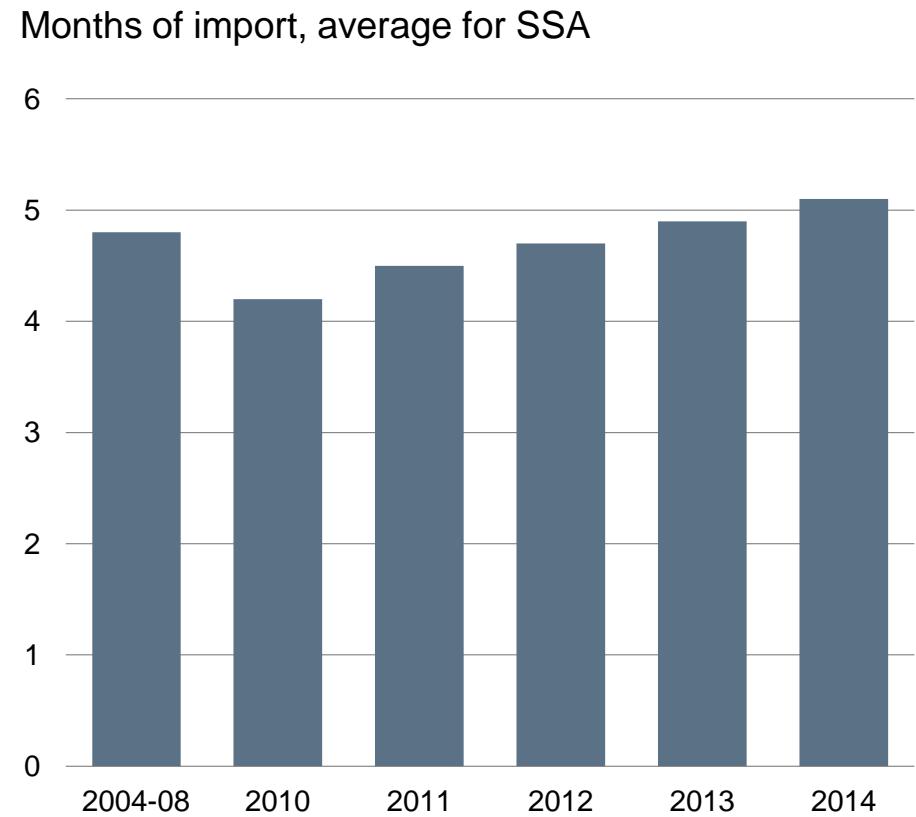
# Improvements in inflation, international reserves



## Inflation



## International reserves



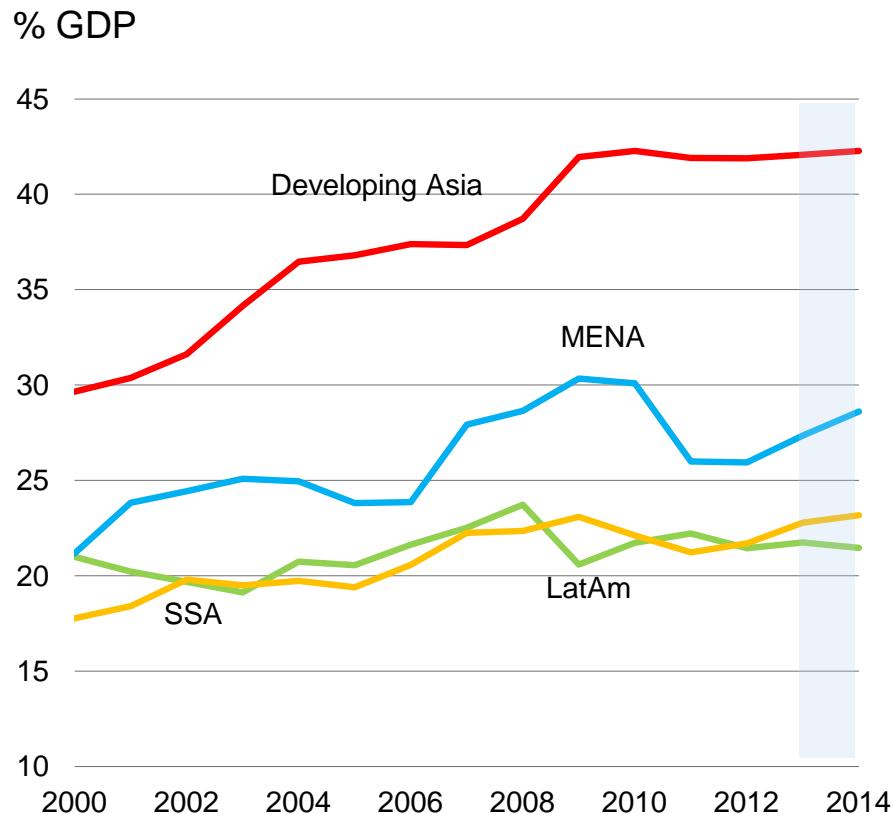
Source: IMF

Source: IMF

# Investment: driver of growth

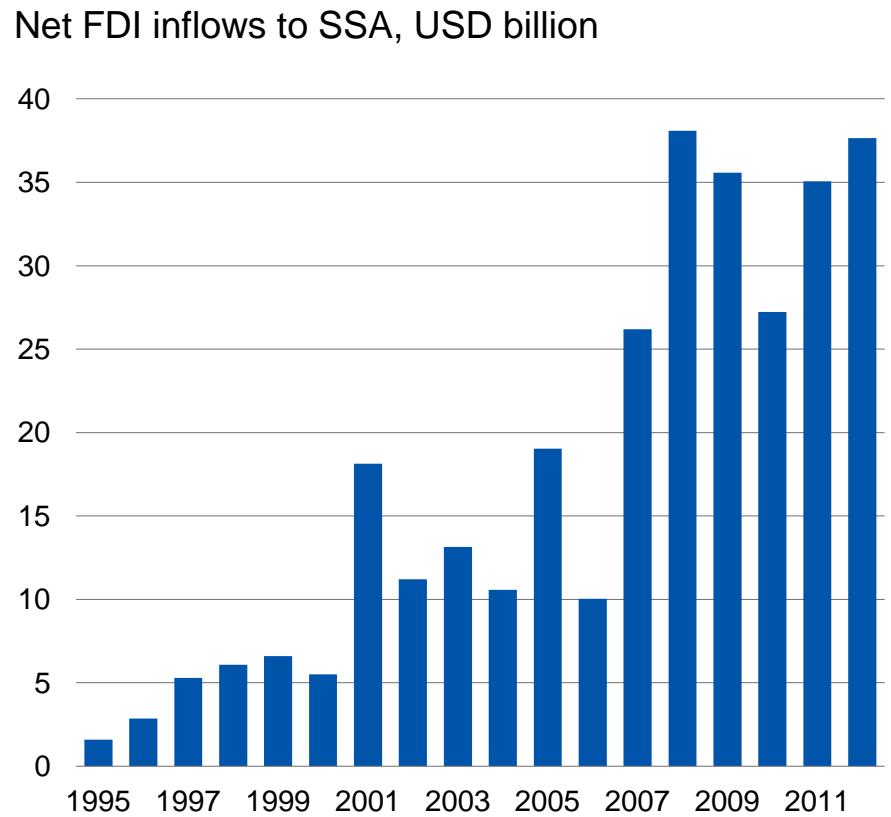


## Investment rising but still low



Sources: IMF, DB Research

## Strongly increasing FDI



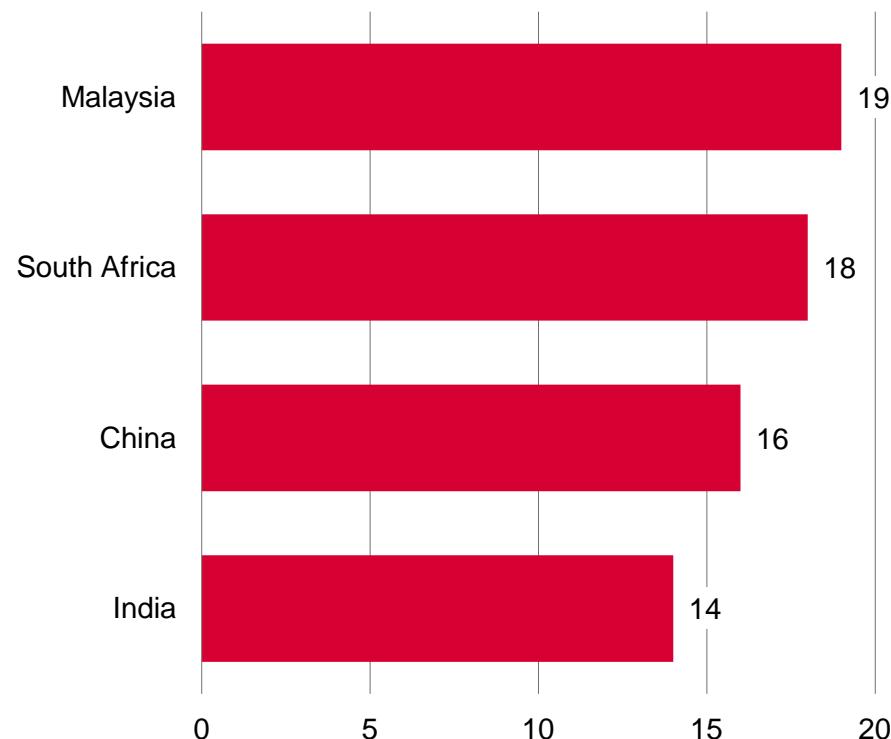
Sources: UNCTAD, World Bank, DB Research

# Strong FDI prospects in agriculture, mining, oil and gas, infrastructure, hotels/restaurants



## Large FDI from EMs

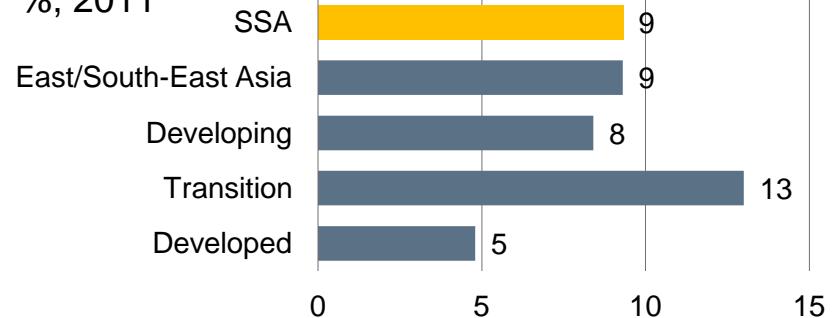
FDI stock in Africa in 2011, USD billion



Sources: UNCTAD, FDI

## Rates of return for inward FDI

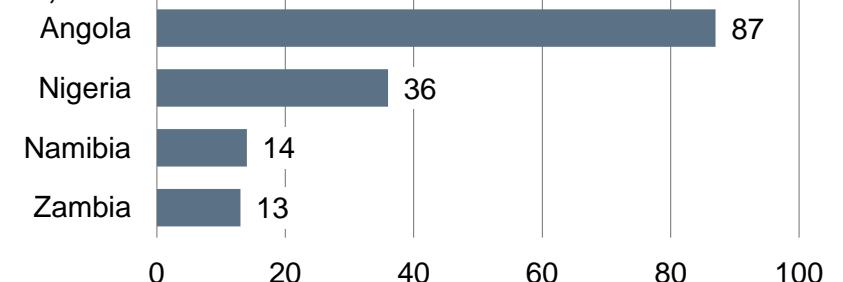
%, 2011



Quelle: UNCTAD, IMF, DB Research

## High inward FDI rates of return

%, 2011



Sources: UNCTAD, IMF, DB Research

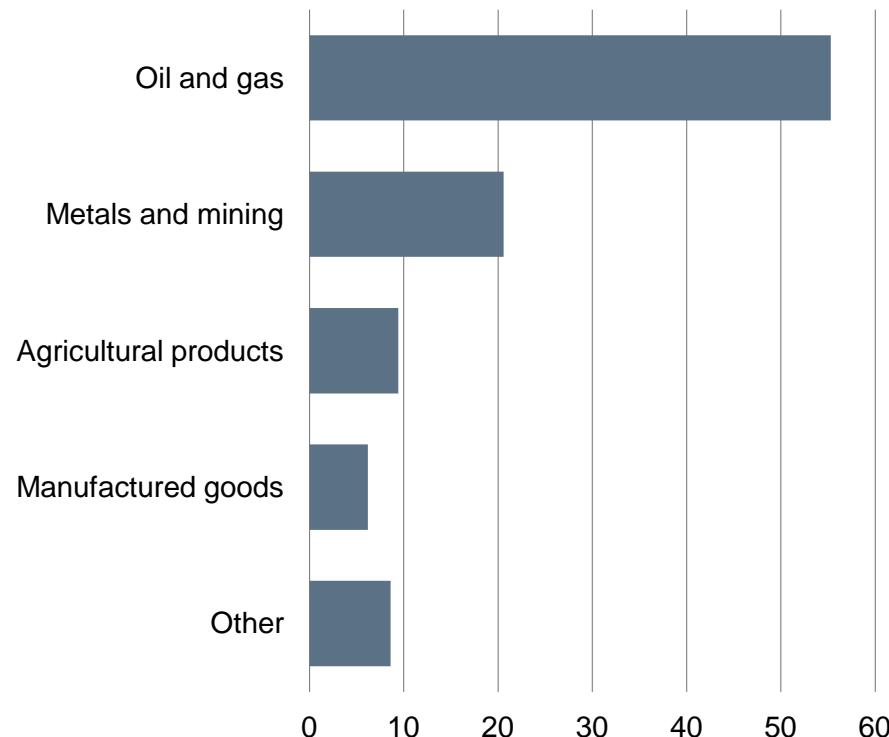
# Exports underpin SSA's economic growth

## 75% natural resources



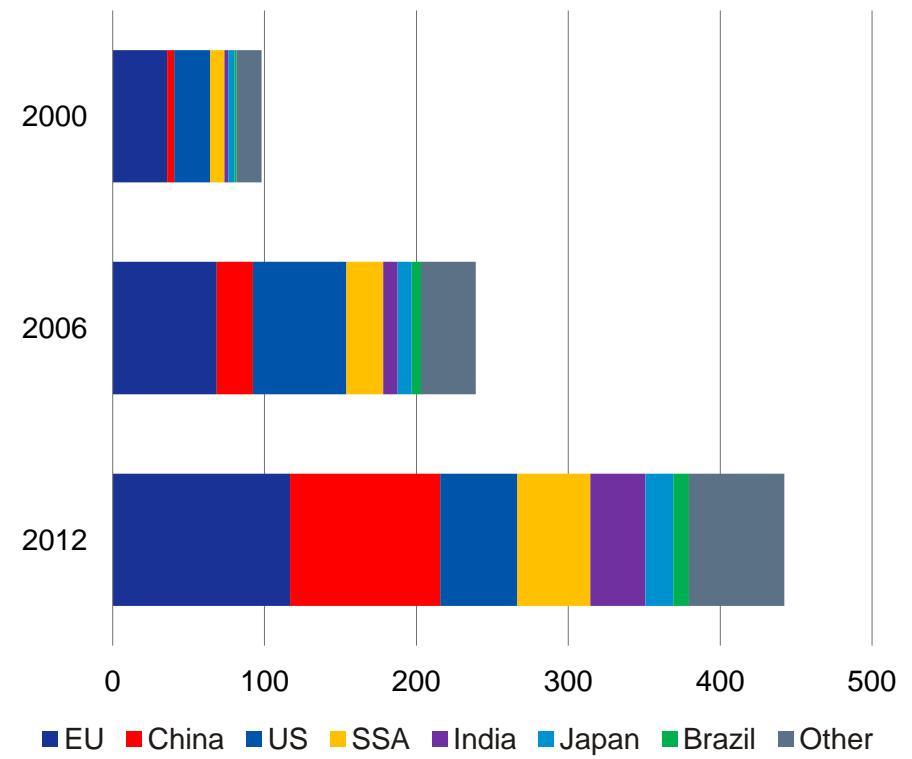
### Export growth from resources

Contribution to SSA growth, %



### Exports increasingly to EMs and SSA

Exports from SSA, USD billion



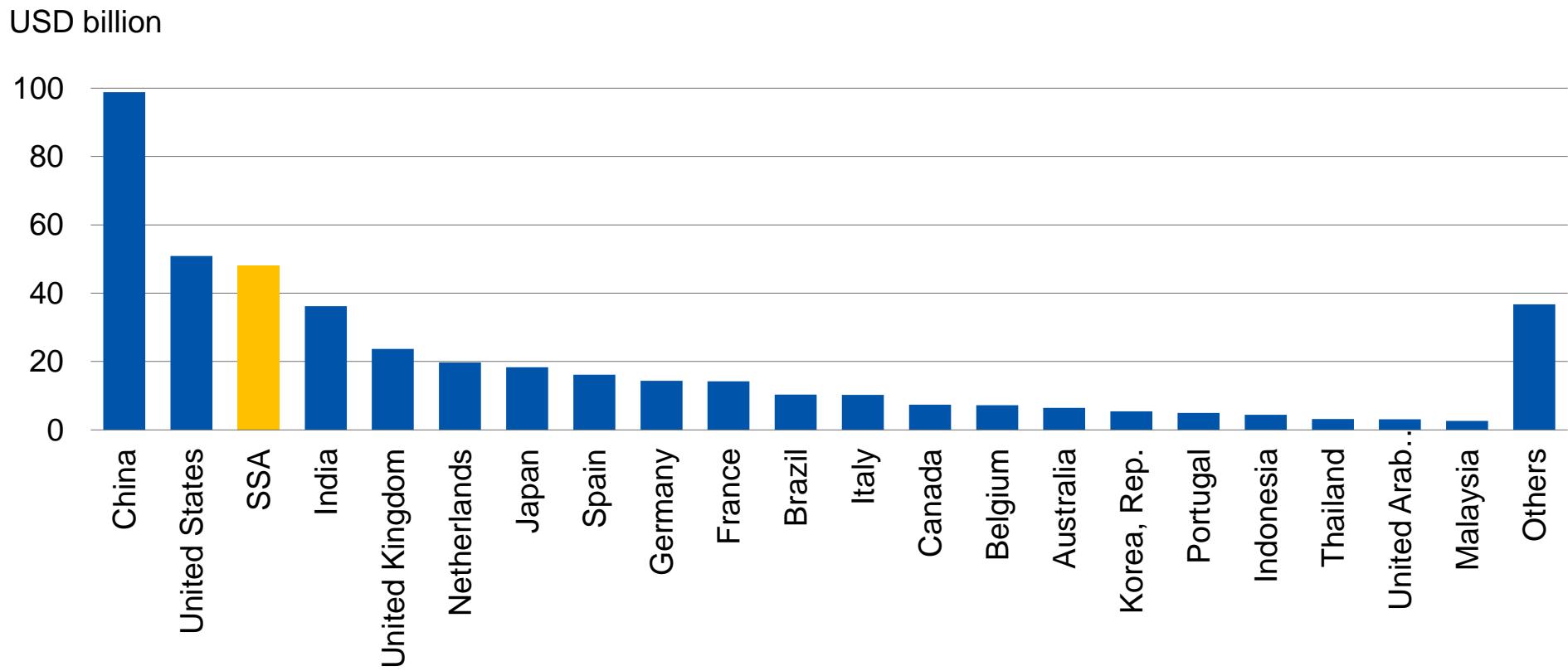
Sources: Comtrade, World Bank, DB Research

Source: IMF DOTS, DB Research

# Increasing intra-regional trade: more manufactured goods and agricultural products



## Exports from SSA by country, 2012

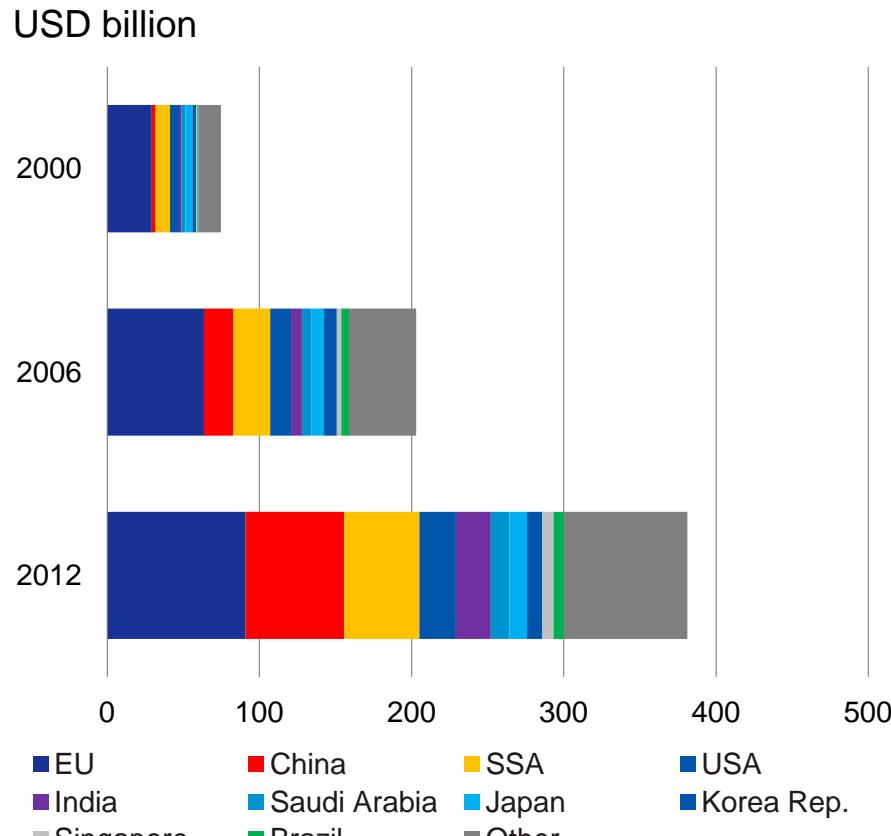


Sources: IMF DOTS, DB Research

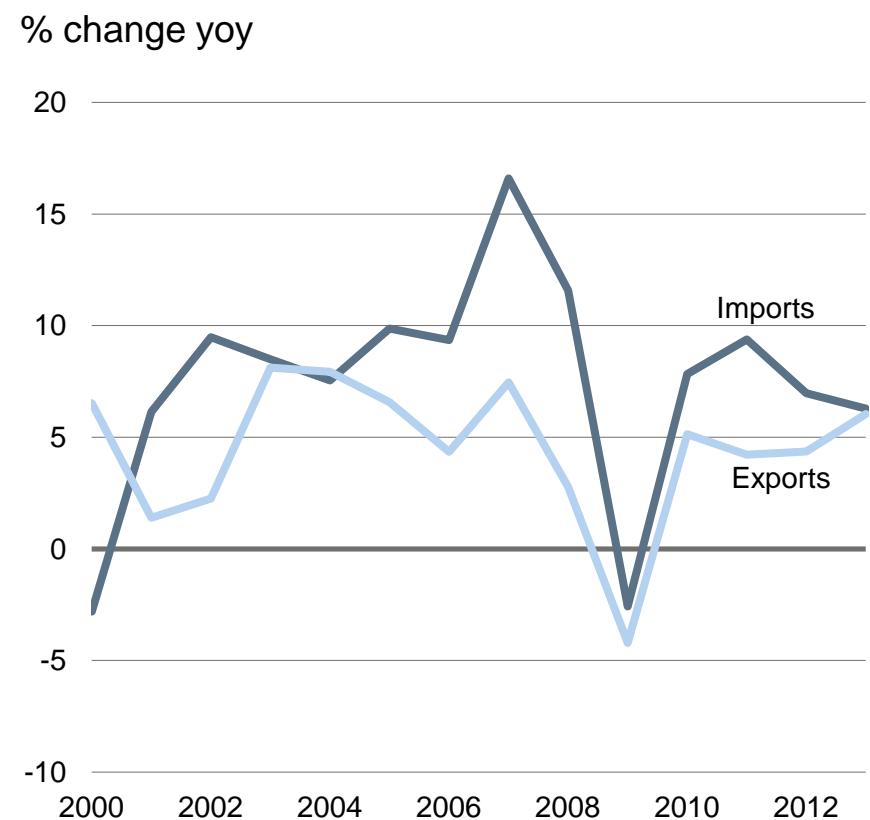
# Imports to SSA also increasingly from the South



## Imports to SSA



## Trade volumes for SSA

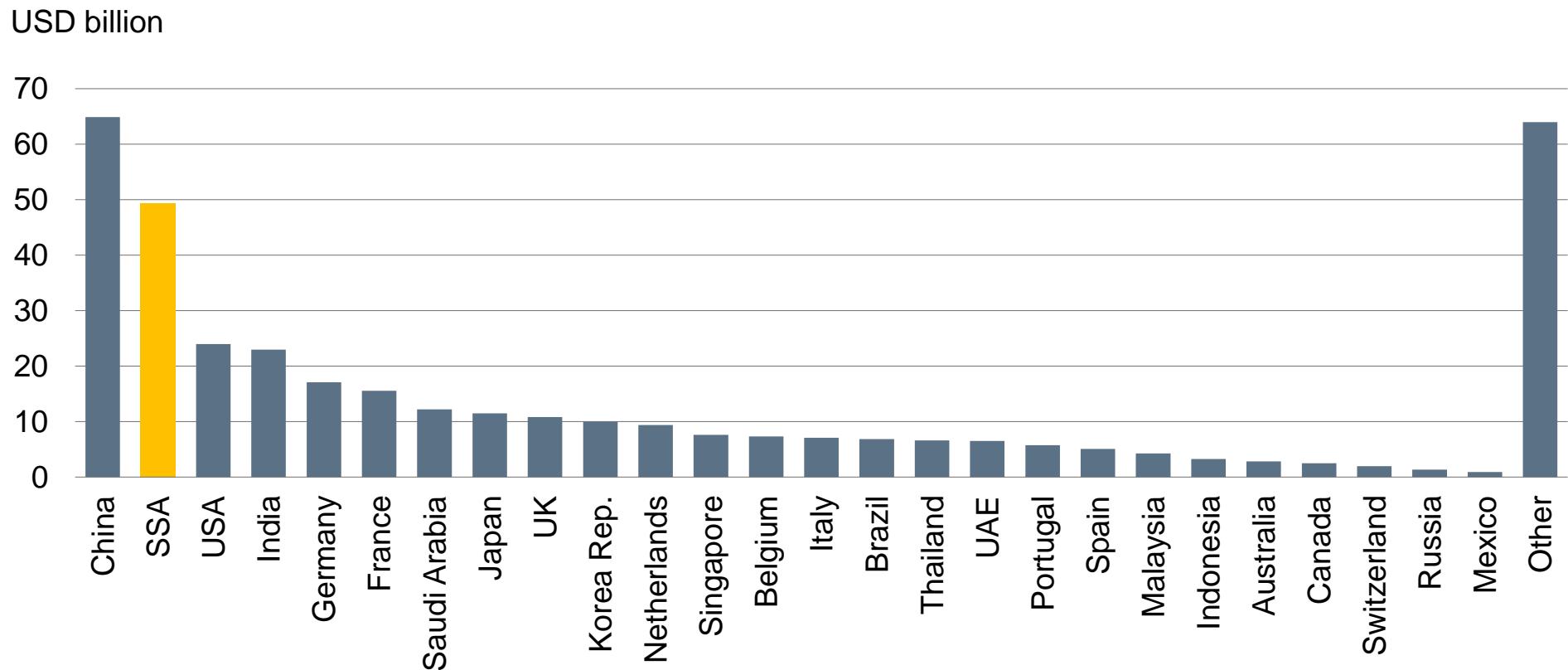


Source: IMF DOTS, DB Research

# Capital goods, food, oil, consumer products



## Imports to SSA by country, 2012



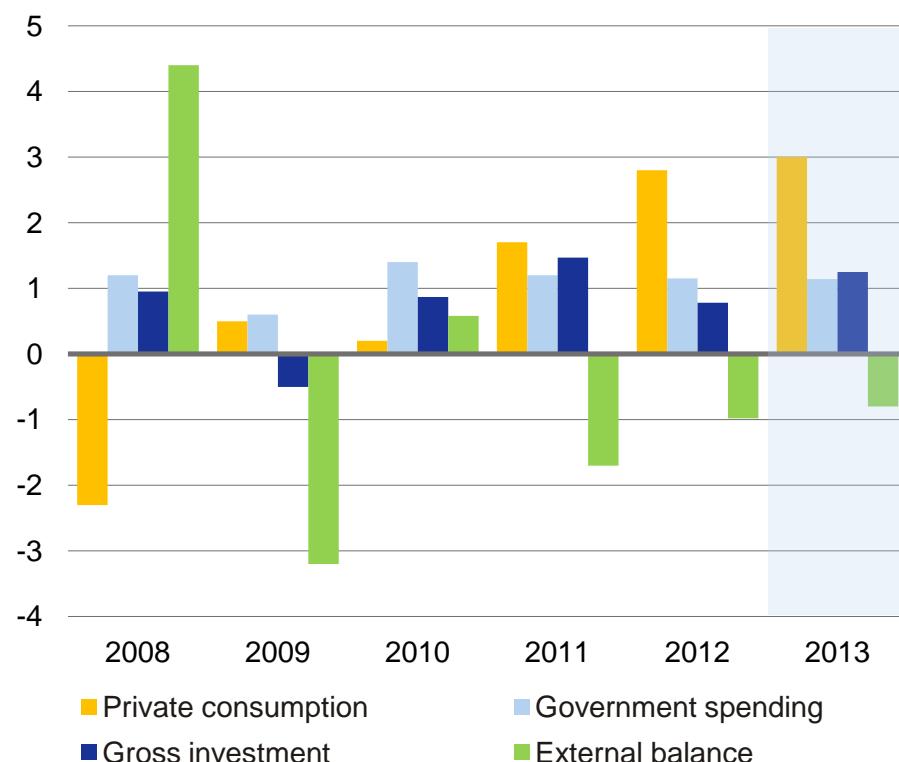
Source: IMF DOTS, DB Research

# Rising customer spending, growing markets



## Private consumption key to growth

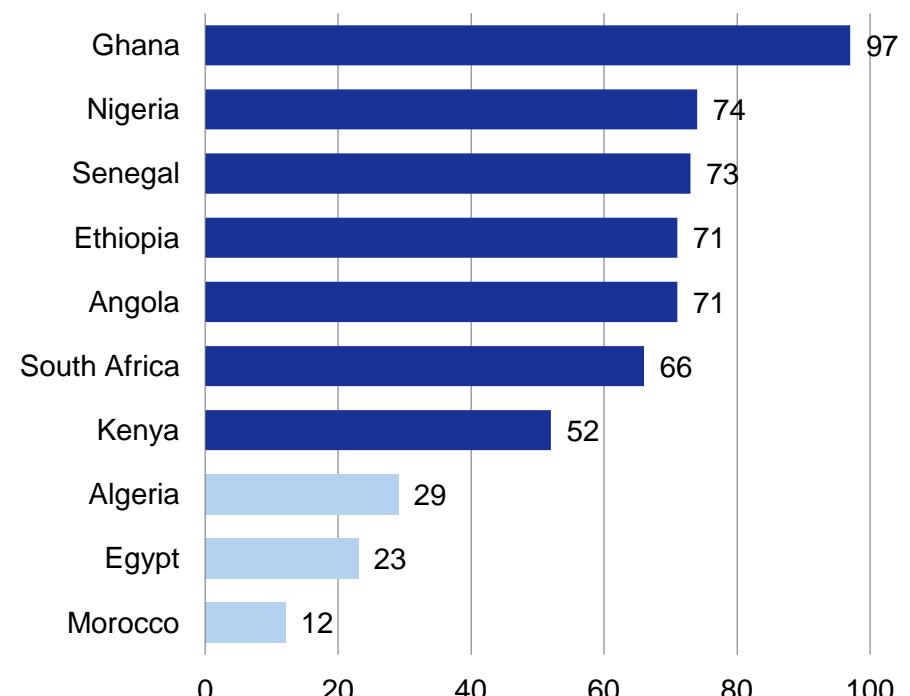
Contribution to real GDP growth, %



Source: EIU

## Optimistic Sub-Saharan Africa

Share of people who feel that their household will be better off in two years, %



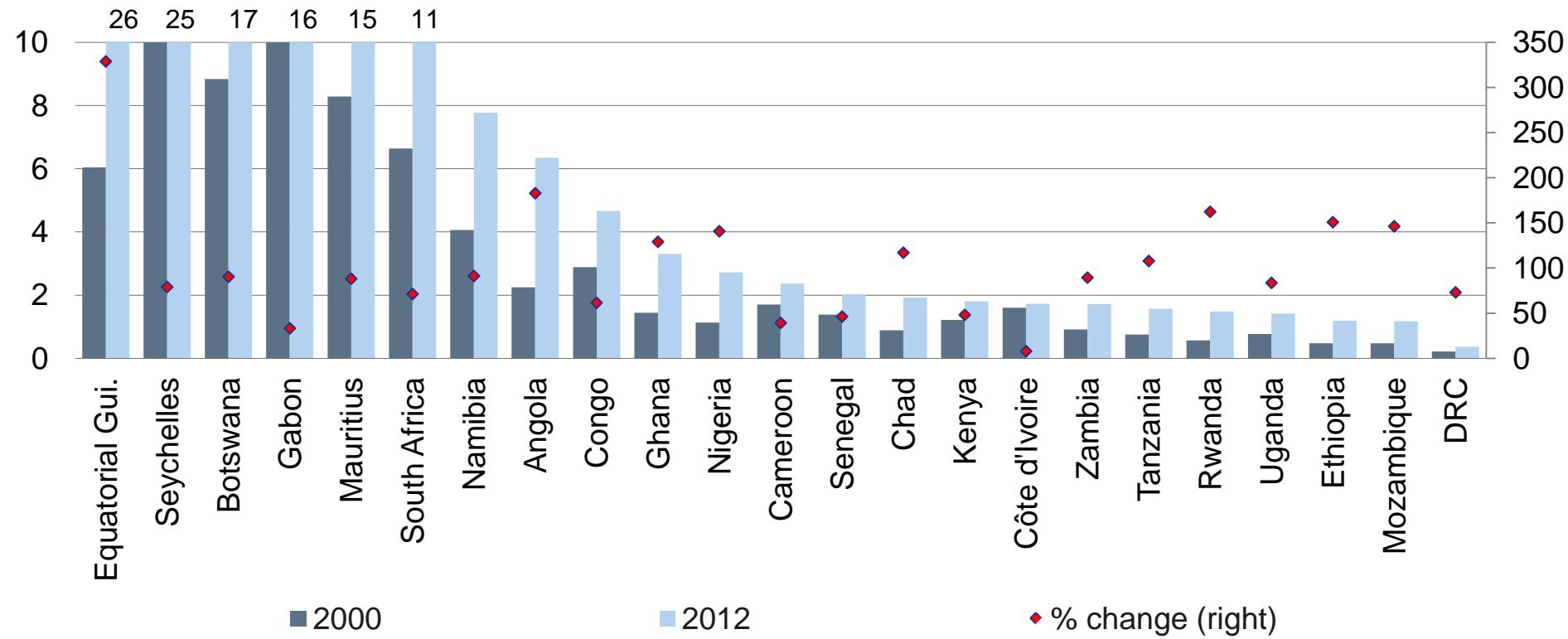
Source: African Consumer Insights Center, McKinsey

# Rising income per capita



## GDP per capita in selected countries

USD at PPP, thousands



Source: IMF, DB Research



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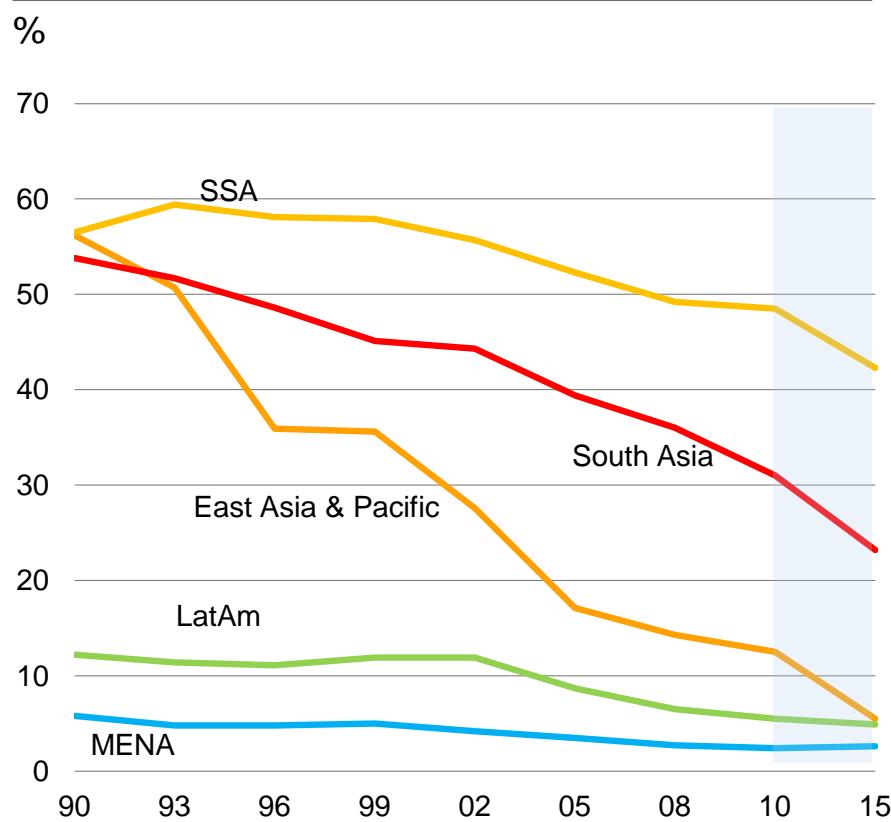
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Governance, business climate

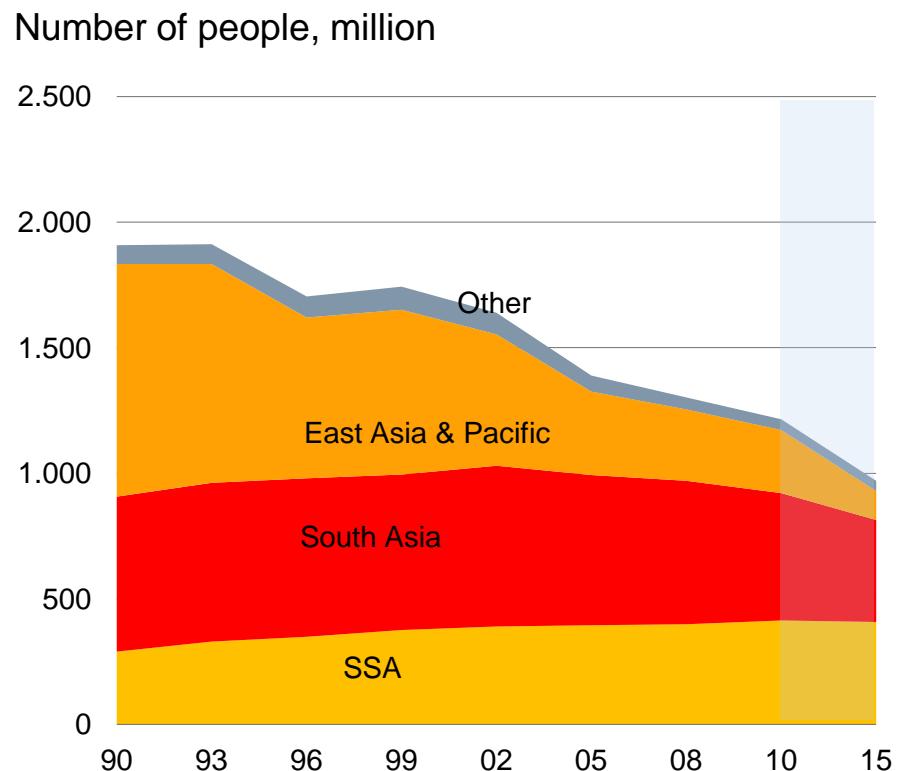
# Poverty rate in SSA is still close to 50%



## Poverty rates continue to fall



## Fewer people in extreme poverty globally, but not in SSA

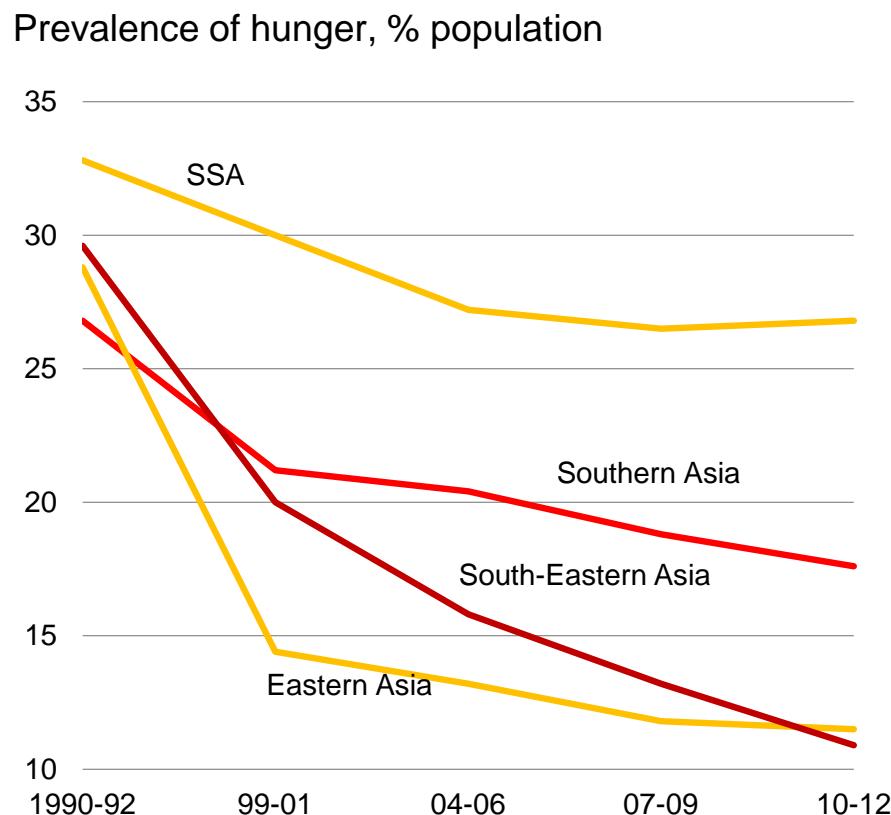


Sources: World Bank, DB Research

# Around 30% of the SSA population is undernourished

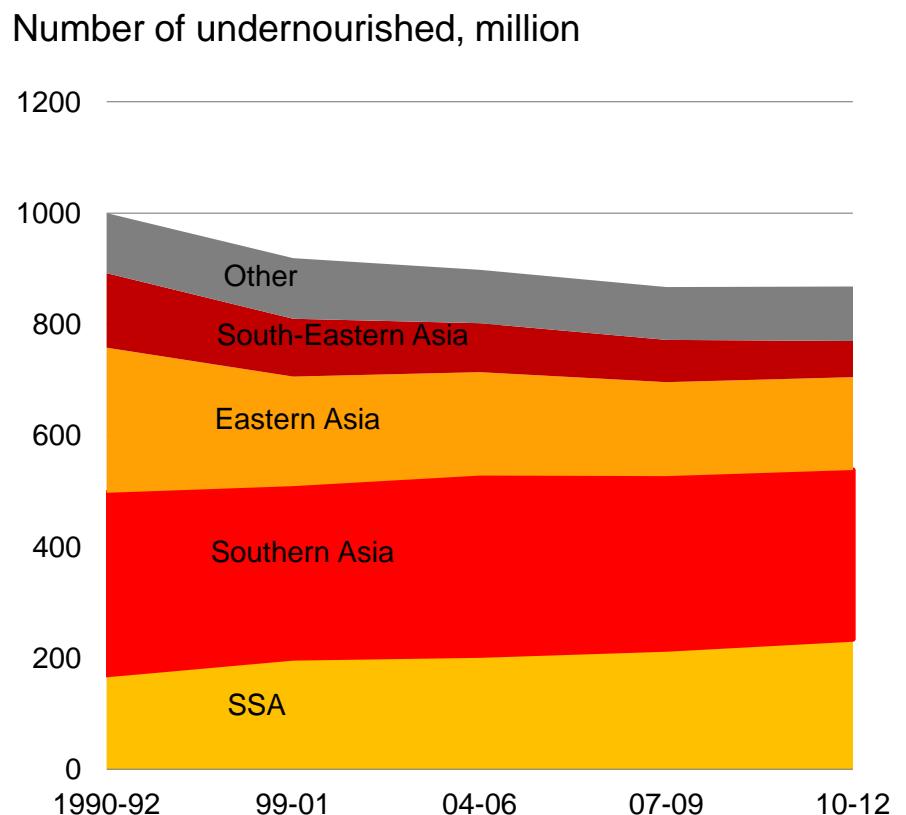


## Hunger persists in SSA



Sources: FAO, DB Research

## Fewer hungry globally, not in SSA

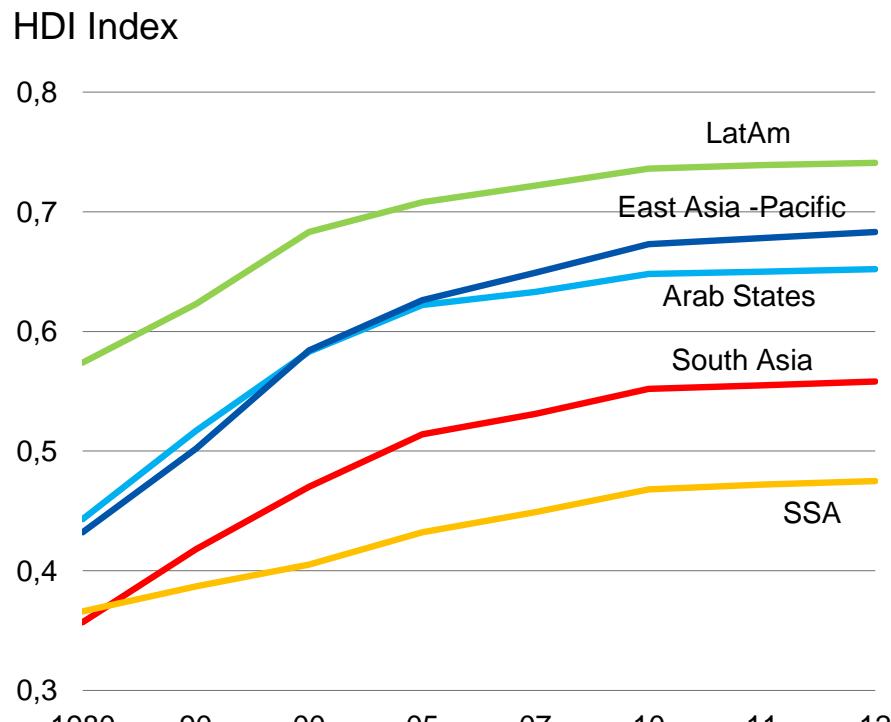


Sources: FAO, DB Research

# Some progress in the Human Development Index



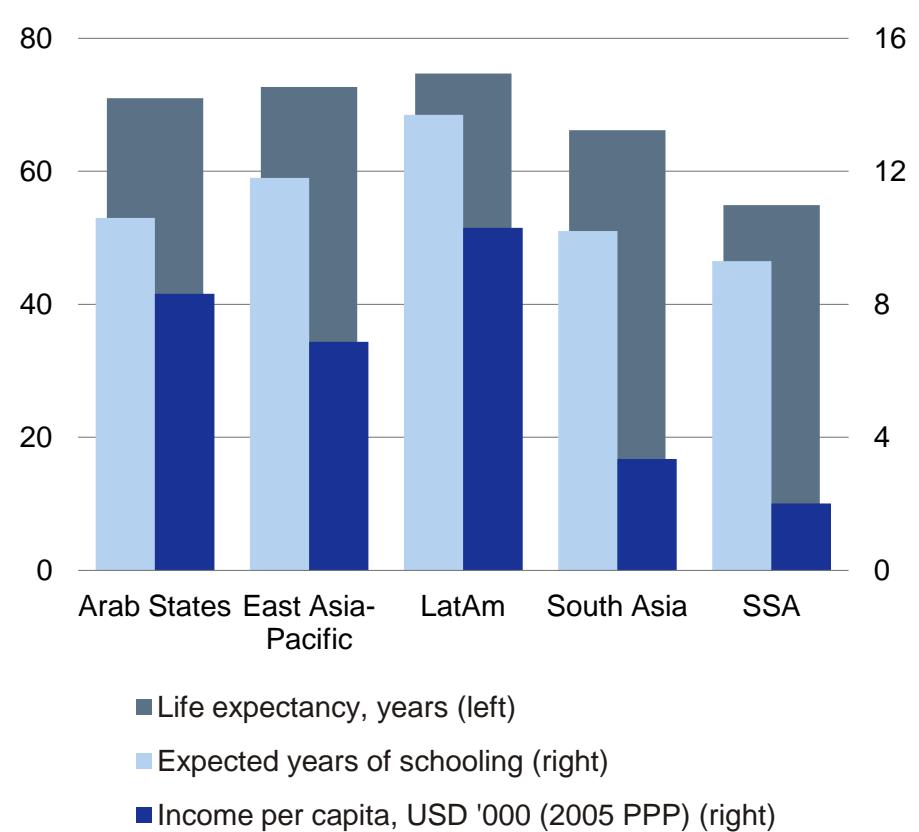
## HDI improving from a low base



Based on fewer than half the countries in each region.

Sources: UNDP, DB Research

## HDI components: SSA behind

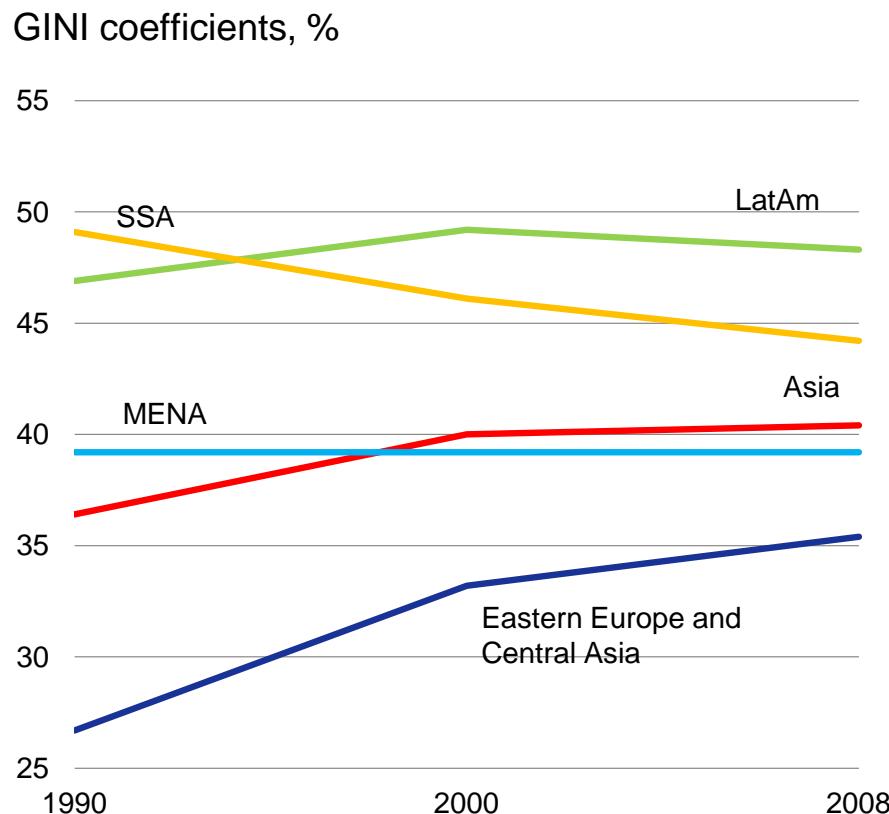


Sources: UNDP, DB Research

# Striking inequalities



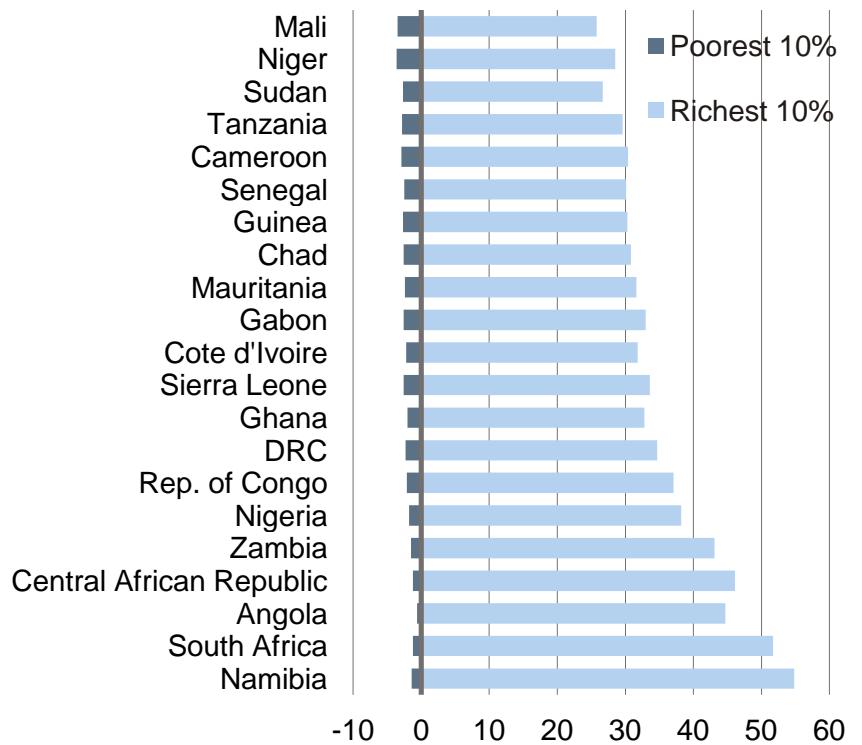
## Income inequality second highest



Sources: World Bank, unicef, DB Research

## High income inequality

Income share in SSA resource-rich countries\*



\* identified as such by the IMF

Sources: DB Research, World Bank



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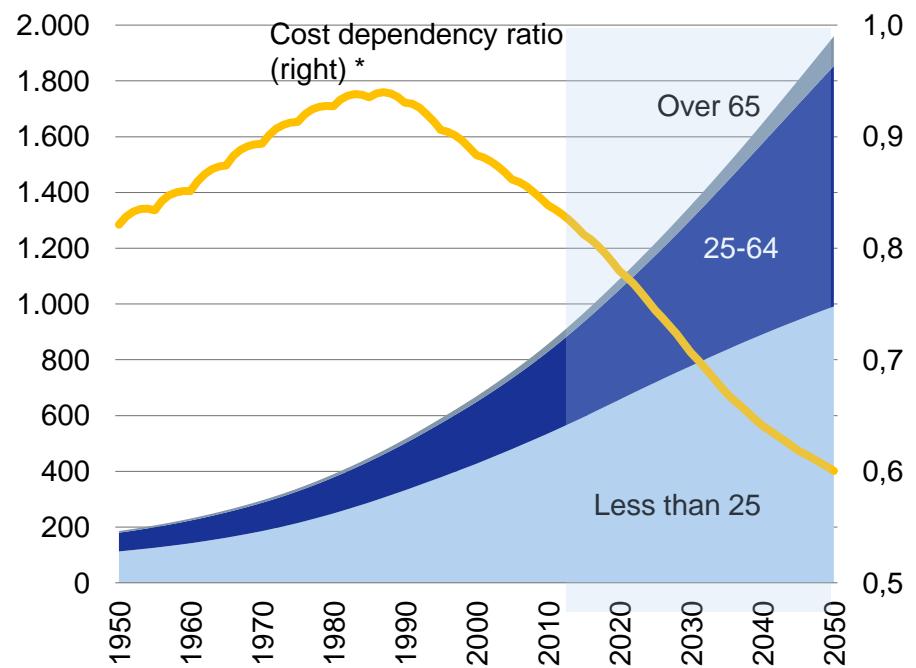
Governance, business climate

# High population growth: a mixed blessing



## Youth surge: 50% of the increase

SSA population, million

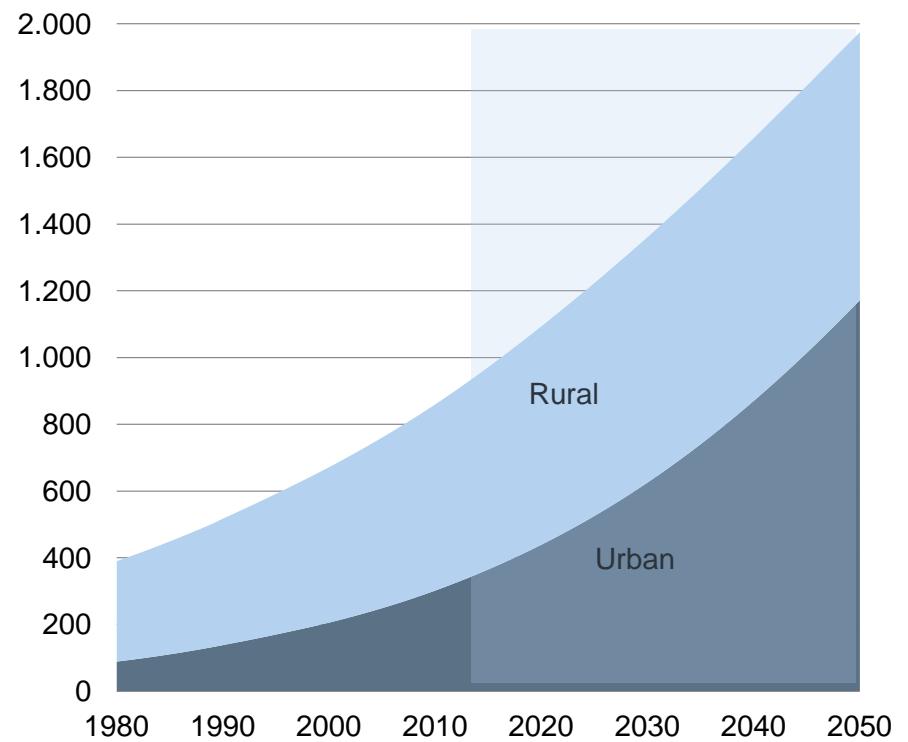


\* Ratio of number of people younger than 14 or older than 65 to the number between 15 and 65

Sources: UN, DB Research

## More urban: $\frac{1}{3}$ today, $\frac{1}{2}$ in 2035

SSA population, million



Sources: UN Population Division, DB Research

# The employment challenge



- Few signs of structural transformation
- Transformation more through services than manufacturing?
- Structural transformation through a strong natural sector
- Low level of wage employment
- Skill deficits: aligning education and employment

Resource production increase 2000 – 10:

- by  $\frac{1}{3}$  for soft and energy
- by  $\frac{1}{4}$  for mining

Conditions for structural transformation in SSA through a strong natural resources sector

- Infrastructure
- Education and skills
- Good institutions and regulations
- Government capacity
- A balanced tax system
- Financial access
- Effective markets



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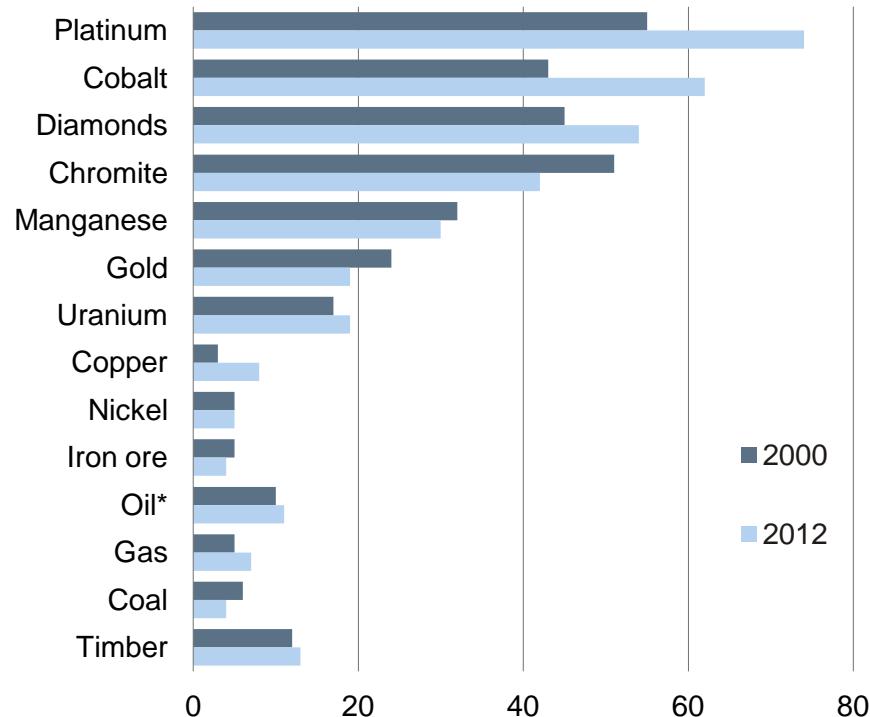
Governance, business climate

# Metals and mining, oil and gas promise strong revenue flows



## Natural resources wealth

Africa's share of global production, %



\* Includes North-Africa.

Sources: Africa Economic Outlook, DB Research

## Global production shares

**South Africa:** 83% rhodium, 75% platinum, 40% chromite, 23% titanium, 18% manganese, 10% gold

**DRC:** 50% cobalt, 25% industrial diamonds, 14% tantalum, 3% copper and tin

**Botswana:** 25% diamonds, 22% copper

**Namibia:** 10% uranium, 7% diamonds

**Angola:** 9% diamonds

**Mozambique:** 9% coltan

**Guinea:** 8% bauxite

**Zambia:** 7% cobalt, 4% copper

**Burkina-Faso, Ghana, Guinea, Mali and Tanzania together:** 9% gold

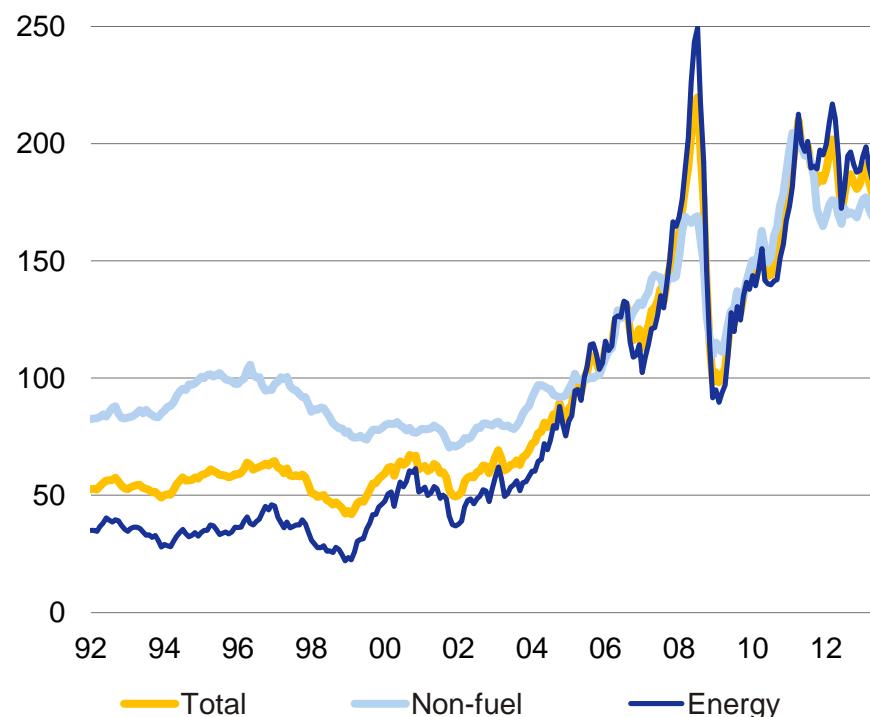
Source: African Development Bank, DB Research

# Commodities: dependence is a risk but an opportunity to create employment and inclusive growth



## Commodity prices: historically high ...

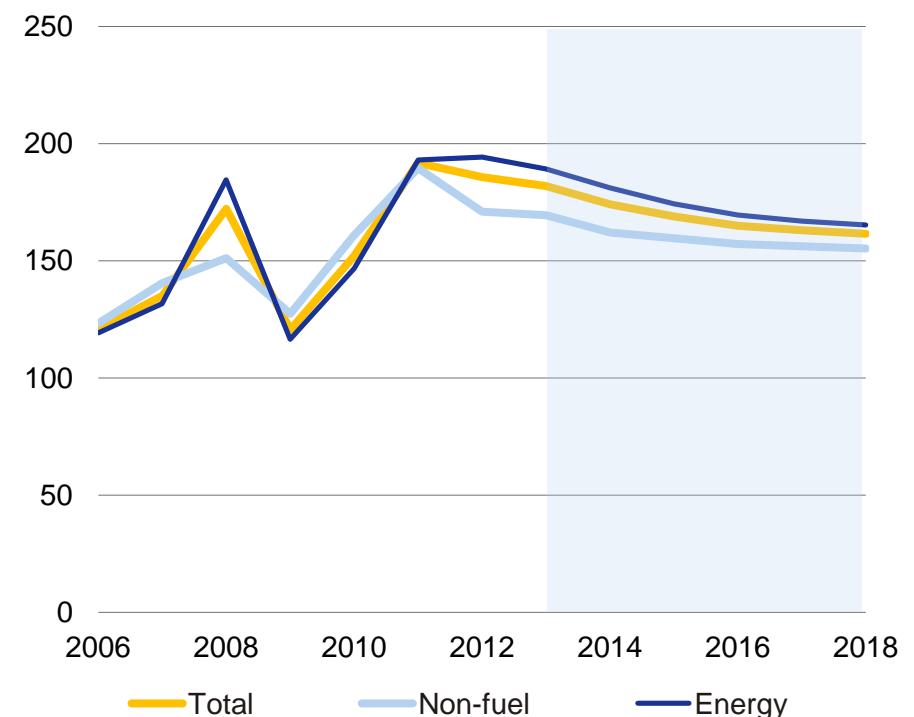
Monthly commodity price index, 2005=100, USD



Source: IMF

... and expected to stay on a high plateau

Yearly commodity price index, 2005=100, USD



Source: IMF



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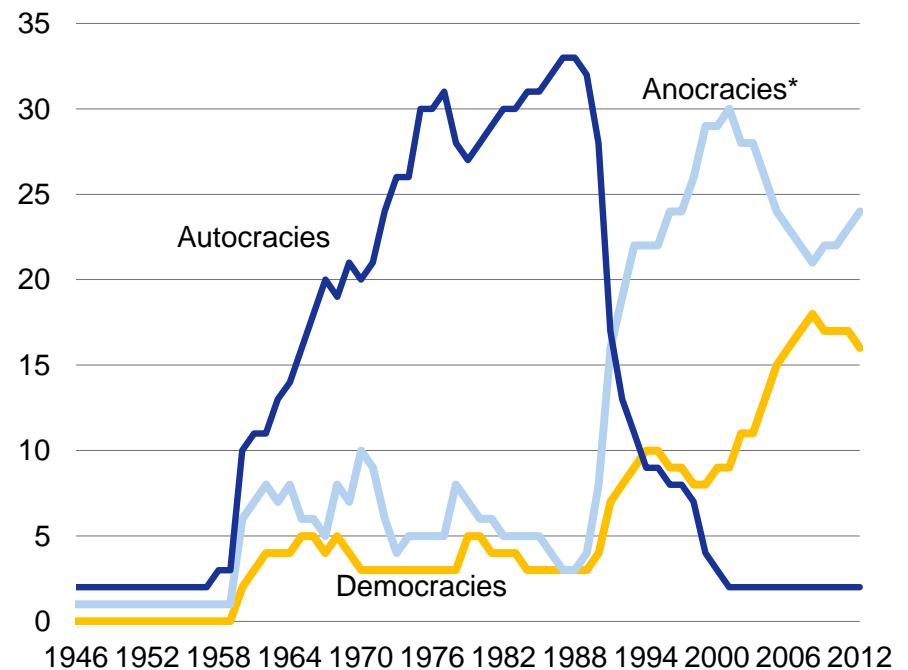
# Some improvement in political stability



- Political liberalization led to improvements in macroeconomic policies
- Driven by:
  - End of the Cold War
  - Need to gather broad support for competitive elections
  - Donors' requirements

## Regime types in SSA

Number of countries



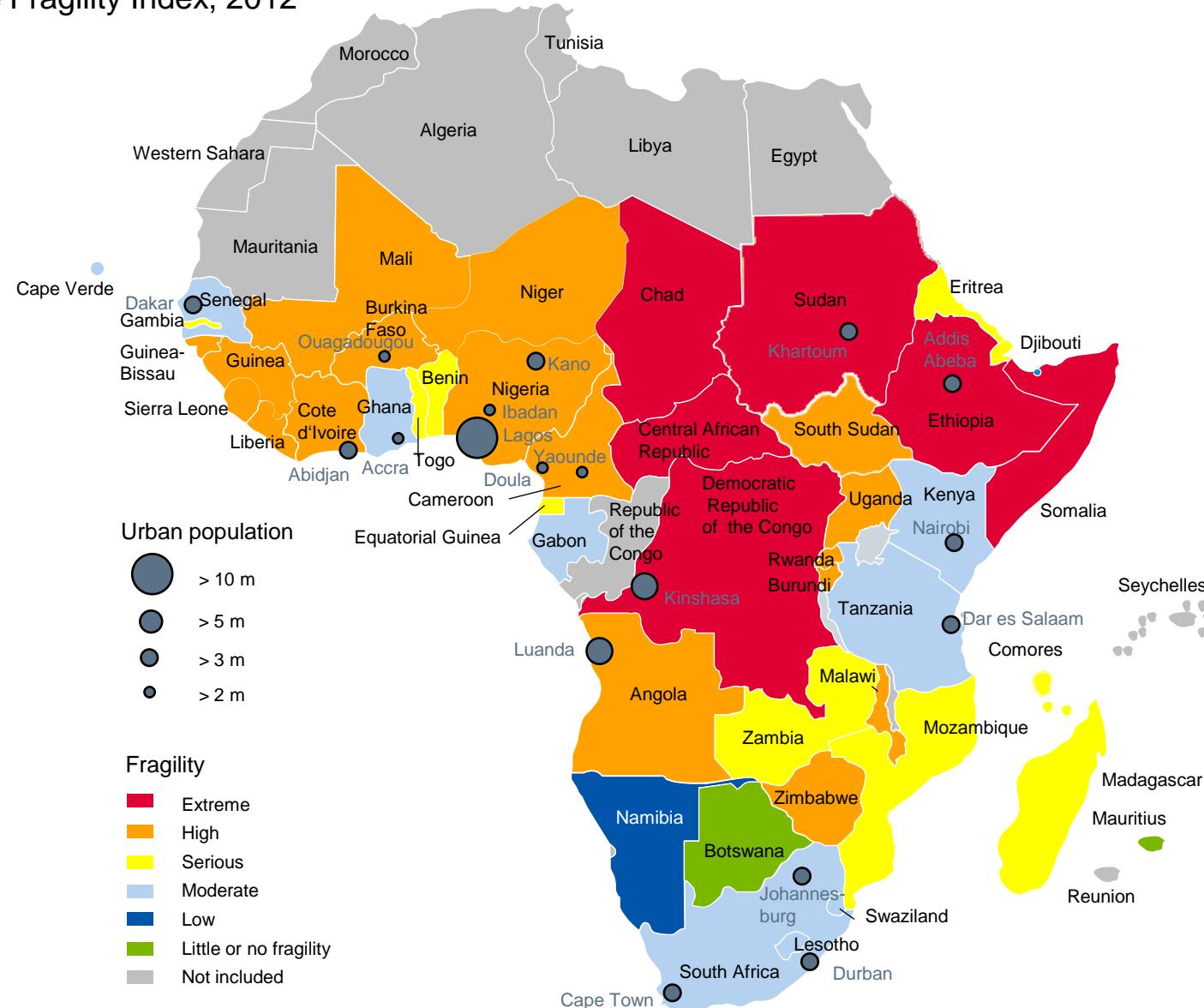
\* Anocracy refers to countries whose governments combine a mix of democratic and autocratic traits.

Source: Polity IV Project (Center for Systemic Peace)

# Political stability is still fragile



State Fragility Index, 2012

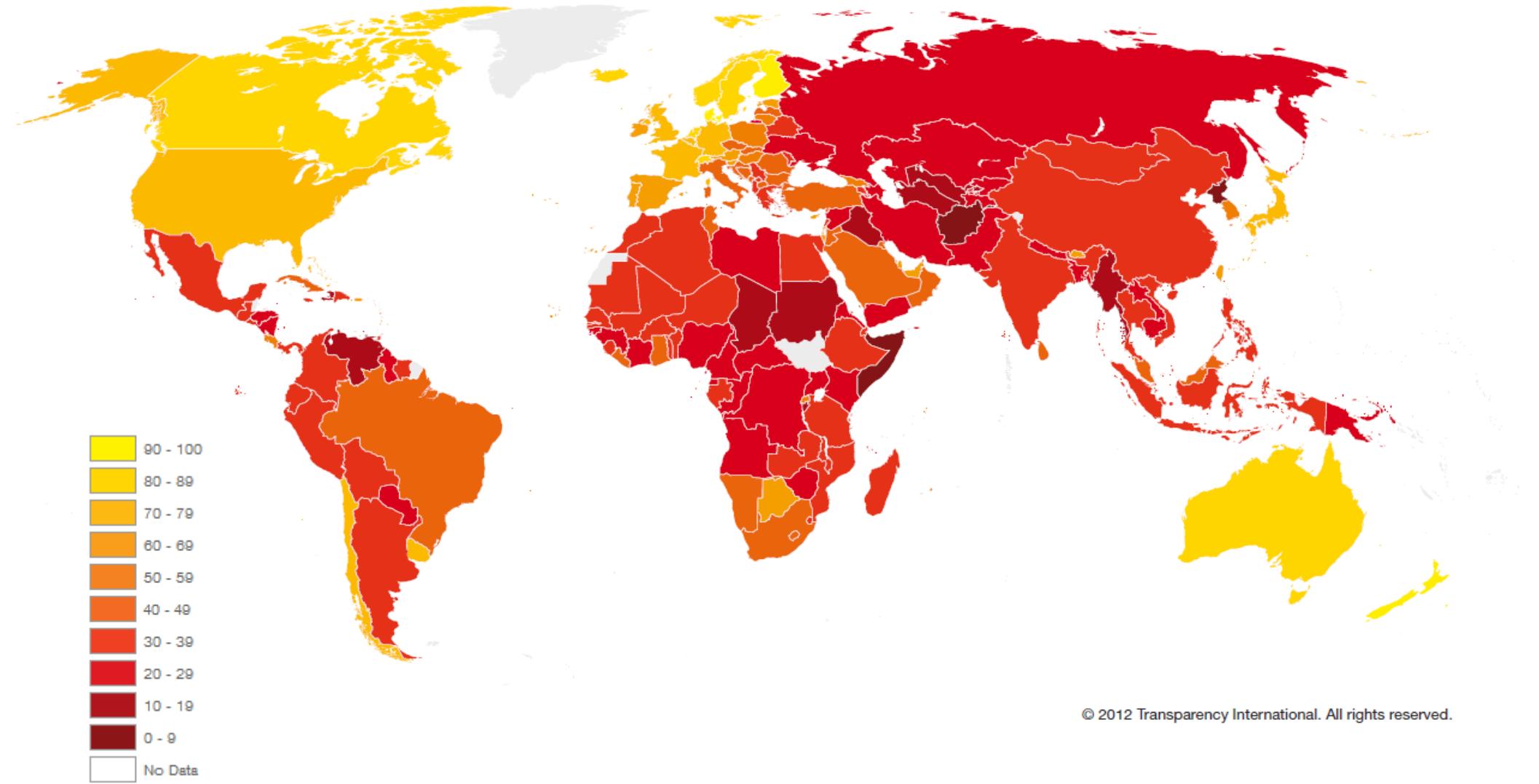


Source: Center for Systemic Peace

# Governance an issue but noticeable improvements



## Corruption Perception Index 2012

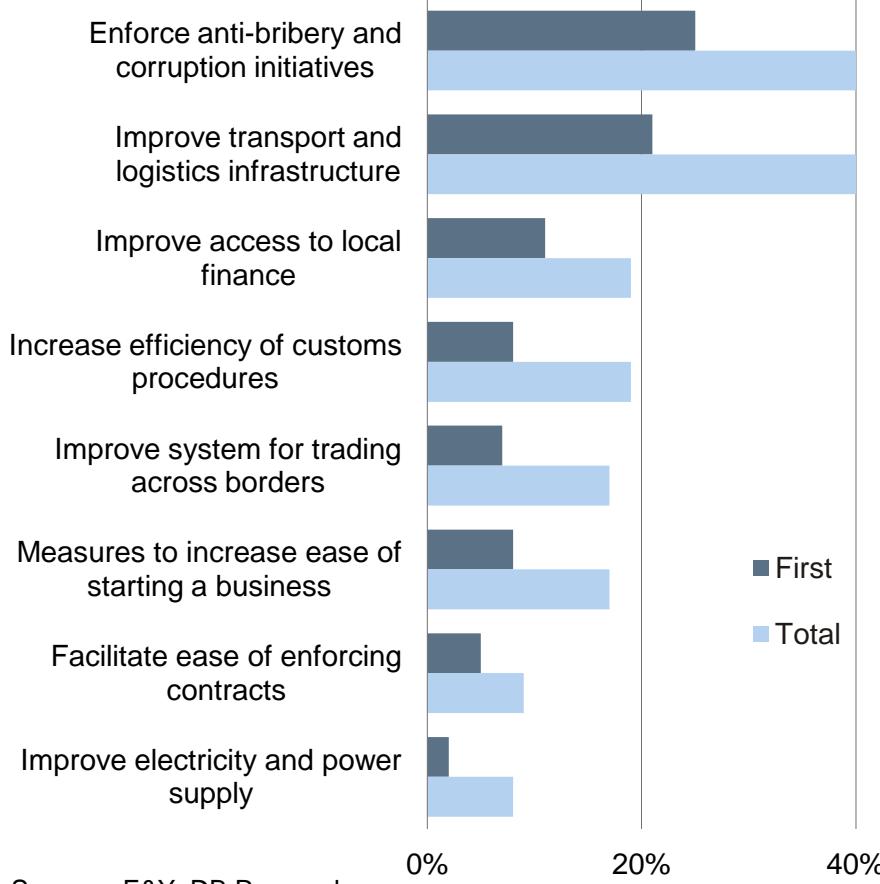


# Improving business environment



## Perceived challenges to doing business: infrastructure, institutions

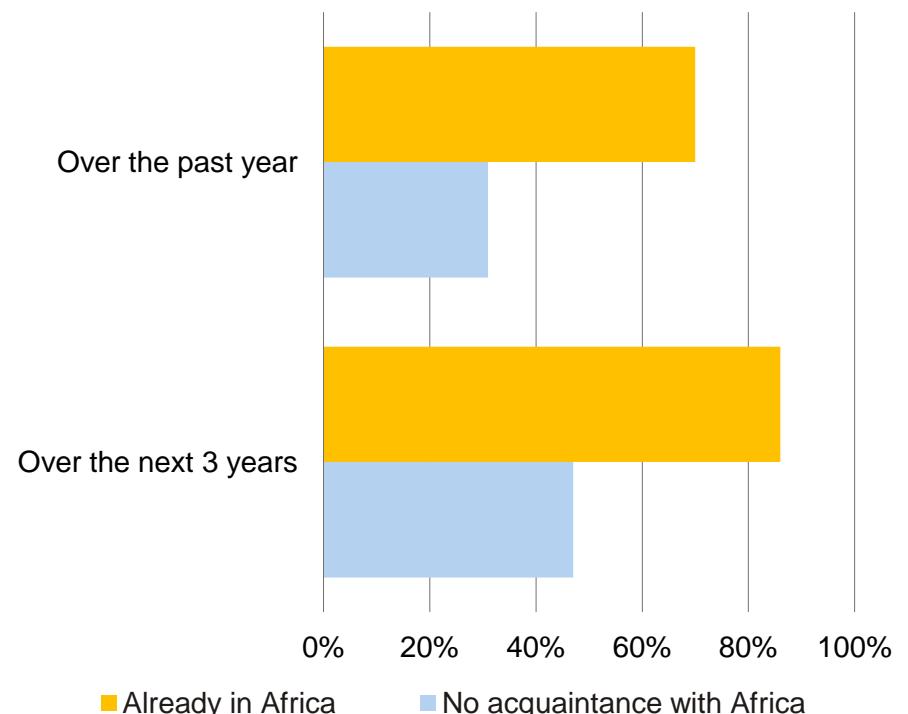
Share of respondents



Sources: E&Y, DB Research

## Perception divide: in vs not yet

Share of respondents voicing that Africa's attractiveness is improving



Source: Ernst & Young

# Publications



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Current Issues  
Emerging markets

## Sub-Saharan Africa

A bright spot in spite of key challenges

July 15, 2013

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Sub-Saharan Africa (SSA) is growing fast with annual real GDP growth of over 5% in the last decade, second only to developing Asia. Medium-term growth will remain robust, on the back of a recovering global economy, still high commodity prices and investment in productive capacity. Annual growth projections until 2015 are close to 6%, higher if one excludes South Africa.

Robust growth is increasingly spread over countries. Not confined to commodity exporters, it also applies to countries not categorised as rich in raw materials, such as Ethiopia and Rwanda. East and West Africa are the fastest-growing subregions.

Improved macroeconomic management and increased political stability have underpinned strong public spending, especially on infrastructure and services. Investment has been an important driver of growth in much of SSA, although it remains low in a developing world context. FDI to SSA is strongly increasing.

A large consumer market is emerging. Consumer demand has grown rapidly in recent years, on the back of solid real income growth. Many SSA countries are expected to reach middle-income status in coming years.

Social development is improving but remains low and uneven. In spite of clear progress in health and education, the poverty rate is still close to 50% and around 30% of the population is undernourished. Inequalities remain striking.

SSA's population is growing fast, becoming more urban and experiencing a youth surge. On the positive side, this means lower dependency ratios, a major rise in demand and urban centres becoming potential hubs of innovation and employment. However, job creation is a particular challenge, in a context of skill deficits. Structural transformation has started, more through services than manufacturing.

Managing resource wealth is key to sustainable growth in SSA. Despite recent headwinds in commodities markets, new discoveries and further exploration promise strong revenue flows. They provide SSA with an opportunity to create employment and inclusive growth through value addition in all sectors.

The business environment remains challenging in SSA but the region is increasingly attractive for investors. Surveyed companies with an established business presence in SSA are happy with their situation. Investments in infrastructure/logistics and education, economic diversification, market reforms and improved governance are critical for SSA's long-term success.

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\* The author would like to thank Kolja Johansen for research assistance.

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Research Briefing  
Emerging markets

October 7, 2013

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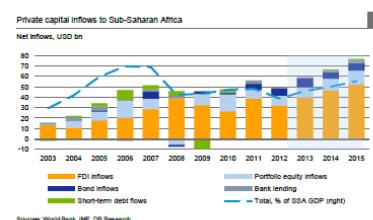
## Capital markets in Sub-Saharan Africa

Growth and improved macroeconomic stability lead to substantial private capital inflows. Strong growth prospects, improved macroeconomic management, increased political stability, as well as robust global commodity demand have led to sizeable capital inflows into Sub-Saharan Africa (SSA).

Capital markets lack size and liquidity, but have attracted investor interest. Portfolio investment in equity and debt markets in Sub-Saharan Africa is small mainly due to the low depth and liquidity of local markets. Recently, however, high yields and improvements in capital market access have started to attract foreign investors searching for higher yields given record-low interest rates in developed markets and meagre returns in more established emerging markets.

Surging Eurobond issuance. The increase in financial inflows has enabled Sub-Saharan African countries to diversify their investor base and to access international bond markets at favourable conditions. There is growing activity in the SSA Eurobond market, with several debut issues planned.

EM sell-off raises borrowing costs, but demand remains. Expectations of a reduction in central bank liquidity in the US led to increasing yields on SSA bonds recently. SSA countries will likely have to cope with tighter borrowing conditions and increased scrutiny from investors in the medium term, but demand for SSA assets has held up reasonably well so far.



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Current Issues  
Natural resources

November 13, 2012

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## Foreign investment in farmland

No low-hanging fruit

There is a global rush for land. Since 2000, recorded agricultural transactions involving foreign investors amounted to 83 million hectares of land in developing countries. 17% of these acquisitions were in Sub-Saharan Africa. While these data are considered reliable, most of the targeted countries are poor with weak land governance, have high yield gaps and good accessibility. Two-thirds of the targeted farmland is located in Africa, especially in Sub-Saharan Africa.

Investors originate from emerging countries, especially China, India, Brazil and Malaysia. Globally, the investors are both private actors – especially from America and Europe – and public or state-owned companies – especially from the Gulf States.

Investment in farmland is driven by long-term trends such as growing consumption of food and biofuels in a context of limited availability of arable land, water and energy; investors are interested in securing access to food or other agricultural products, access to water and financial return in an alternative asset class. Both arable and non-arable crops (e.g. biofuel crops, rubber) are of interest. The agricultural land market is largely open for foreign investors.

Significant risks are associated with investing in farmland. The main challenges are to respect the economic and social rights of local populations, to preserve environmental sustainability and to avoid one-sided agricultural development. Investors often compete for land with local farming communities.

Investments in farmland can also be a "win-win-win" strategy if the risks are mitigated, particularly through project transparency and long-term engagement with the local population. Besides the gains for investors and home countries, investments in farmland can yield benefits for local communities, the host country at large and lead to increased global agricultural production. Financial investors have an important role to play in maximizing these benefits.

The way forward includes improved governance, especially security of land tenure. Global standards for land tenure and land use laws are conducive to broad-based development but an effective mechanism to enforce them is still missing. Documenting foreign investment is also key, both for transparency and better understanding of the phenomenon.

There is a strong case for private investment in agriculture. Investments required in developing countries to support the agricultural output needed in 2050 amount to an average of USD 83 billion per year, which represents an increase of about 50% over current levels. There is increasing evidence that collaborative business models between small farmers and investors (for instance contract farming) can be mutually beneficial, boosting agricultural productivity while reducing poverty and hunger, without necessitating transfer of land.



Thank you for your attention!

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