HOW IS INTRA-AFRICAN FDI SHAPING THE CONTINENT?

FDI’s impact on local economies and business communities in the EA region

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Africa: Synopsis

- Collective GDP, $2 trillion ahead of INDIA

- Labor force increasing while it contracts in the rest of the World. 500 million in working age group. Projected to be 1.4 billion in 2040, more than China, or India

- In 2012, over 20 Countries held democratic elections.

- 35 Countries ahead of China on Economist’s Intelligence governance ranking.

- Integration increasing: example Tripartite bringing together EAC, COMESA, SADC expected to bring 26 countries, population 700 million, GDP $875 billion, into a single Free Trade Area.
FDI in Africa

✓ Fuelled by sustained reforms within the continent and changing perceptions, FDI in Africa is on an upward trajectory. Increased 87% over the last 10 years. Expected to peak at $150 billion by 2015 (Ernest & Young). Intra-African FDI is also increasing. Example, Kenya is now the fastest growing FDI into Tanzania.

✓ The three strongest investment opportunities stem from infrastructural needs (estimated at $90 billion annually); growing consumer demand as a result of increased urbanization and the continent’s resources (particularly agriculture, mining and the oil and gas sectors).
Africa Inflows & Outflows

FDI Inflows, 2005-2011
(Billions of Dollars)

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Source: UNCTAD World Investment Report 2012
Drivers

- Africa’s Urbanization increasing 40-50%. Nairobi and Lagos expected to grow 50% by 2025.

- Annual Private Sector infrastructure investments have tripled, averaging $19 billion in 2008.

- Oil revenue, only $34 billion in the 1990s was $124 billion in 2005 and has since doubled according to the Renaissance group.

- Inflation single digit, down from an average of 22% in the 1990s. Budget deficits slashed over 60%. Absolute poverty levels, maternal and infant mortality down.

- Investments in health and education up.
CONT: Drivers

- Productivity gains made easier by technology transfer.
- 500 Million mobile phone subscribers: 64% mobile phone penetration in East Africa. Leader in Mobile banking.
- South Africans spend on average $940 per year on electronic products. More than the average Indian.
- Sales of mobile handsets in East Africa increased an astonishing 76% in 2009, over 200% in Kenya alone.
EAST AFRICAN COMMUNITY

- Combined population of approximately 133.5 million
- Total combined area of 201 million sq km
- Total GDP of US$79.2 billion Dollars
- GDP per capita of US$685
EAC Integration Pillars

- Political Federation
- Monetary union
- Common Market
- Customs Union
EAC the Leader

✓ EAC fastest reforming regions in the world.

✓ EAC intra-regional trade rose to 23% of the total value of exports, the highest of all RECS.

✓ Region’s economy average annual growth rate of over 6%, each country performing within a band of between 4% and 11% respectively.
Reforms in business regulations

Share of economies with at least one *Doing Business* reform making it easier to do business (%)

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Source: *Doing Business* database.
In EAC FDI’s both from Africa and beyond grew to 1.7 billion USD in 2010

Between 2000 and 2010 the size of East Africa’s economy grew in real terms to 79 billion USD from 32 billion USD

Intra-EAC trade expanded to 4.1 billion US dollars in 2010 from 2.2 billion USD in 2005.

The region’s trade with the world as a share of its economy expanded from 28% in 2005 to 47% in 2010.

The value of the EAC’s total trade with the world was 37 billion USD in 2010 doubling up from 17.5 billion USD in 2005.
FDI Trends in EA (2000-2010)

Source: UNCTAD World Investment Reports
Trends in EA’s Trade Performance (2000-2010)

Source: EAC Secretariat Facts and Figures (2011)
Opportunities for increasing FDI inflows in EAC

- Investments required in production of adequate and reliable power, better infrastructure especially feeder roads,

- Improvement in Negative image of Africa propagated by western media about the continent.
Opportunities for Investment

- Economy Diversification
  - Agriculture
    - Agriculture accounts for almost 30% of GDP in EA, employs more than 60% of the population, Staple foods represent 75% of total agricultural products traded.
    - Staple foods fastest growing set of traded commodities with annual value of $50 billion.
    - The rapid development we are seeing demands that we focus and begin to invest more on upgrading our agricultural method to include mechanization for value addition.
CONT: Opportunities for Investment

- Economy Diversification
  - Tourism

✓ Over the past two years, tourist arrivals to our region have surpassed the 4 million mark annually.
✓ EAC Partner States have agreed to work together to promote the industry and maximise gains.
✓ The EAC is currently finalizing on the legal means of promoting the EAC region as a single tourism destination by offering a single destination Visa.
CONT: Opportunities for Investment

• Infrastructure Development
  ✔ EAC Infrastructure deficit in energy, rail, ports and harbors stands at $43 billion dollars. Priority projects in Energy, Railways, Ports and Harbors, ICT, exist, ready for investment.
  ✔ The EAC has therefore put in place a mechanism to ensure joint contribution to the implementation of regional infrastructure projects.
  ✔ The EAC embracing strong infrastructure partnerships with neighboring states for development of regional infrastructure.
EAC ROAD & RAIL MASTER PLANS
CONT: Opportunities for Investment

- **Infrastructure Development**
- **Road Network and Railway**
  - Presently, the railway handles only 10 per cent of the region’s port cargo; most cargo is transported by road,
  - Region placing a lot of focus on upgrading and modernizing the current railway network in addition to extending it to other parts of the East African Community.
CONT: Opportunities for Investment

- **Infrastructure Development**
- **Water Transport**
  - lake Victoria, the 2\textsuperscript{nd} largest fresh water lake in the world.
  - The EAC is now trying to fully utilize the lake to support economic development.
  - The EAC investing to fully utilize Lake Tanganyika
CONT: Opportunities for Investment

- Infrastructure Development
- Energy

✓ The shortfall in the supply of power remains a major constraint to economic development in the EAC economies.
✓ EAC countries moving to fully embrace strong infrastructure partnerships with neighboring states.
✓ EAC Marketing New energy discoveries and opportunities in the energy sector.
CONT: Opportunities for Investment

- Economy Diversification
- ICT
  - The ICT sector has driven up to 40% of economic growth in East Africa in the past 10 years.
  - Massive penetration of mobile telephony innovations such as mobile Commerce (e.g. the pioneer money transfer service, MPESA), has simplified financial transactions and made banking more widely available to people in our region.
Why Regional integration?

✓ Integration of regional markets opens opportunities to balance regional supply and demand, opening up opportunities and incentives to increased productivity.

✓ Statistics now prove that regional integration, being one of the key factors which will lead to unlocking of Africa’s growth potential and needs to be fast-tracked in order to encourage and facilitate cross border business and realize the economies of scale which will attract larger regional and international investments.

✓ East Africa is a microcosm of developments across the Continent.

✓ Local communities, an emerging vibrant, techno savvy middle class are driving innovation, and are increasingly, drivers of African growth.
For more information: www.eac.int

Thank you

One People... One Destiny