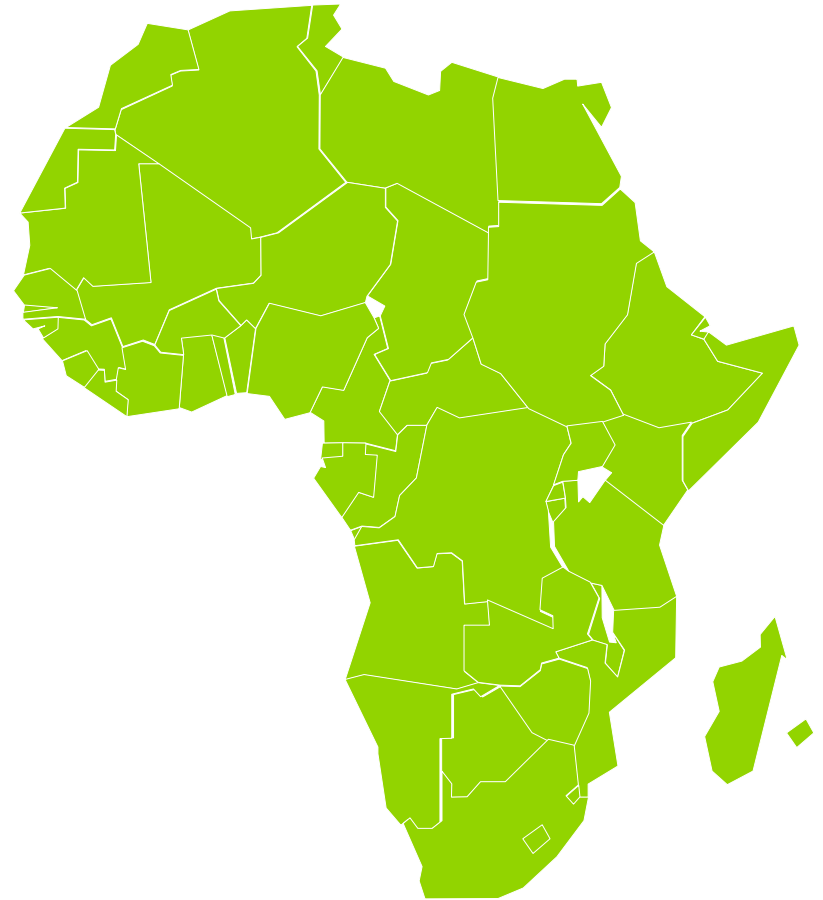




Emerging Lions in Sub Saharan Africa

Prof. Rodger George
Director Deloitte

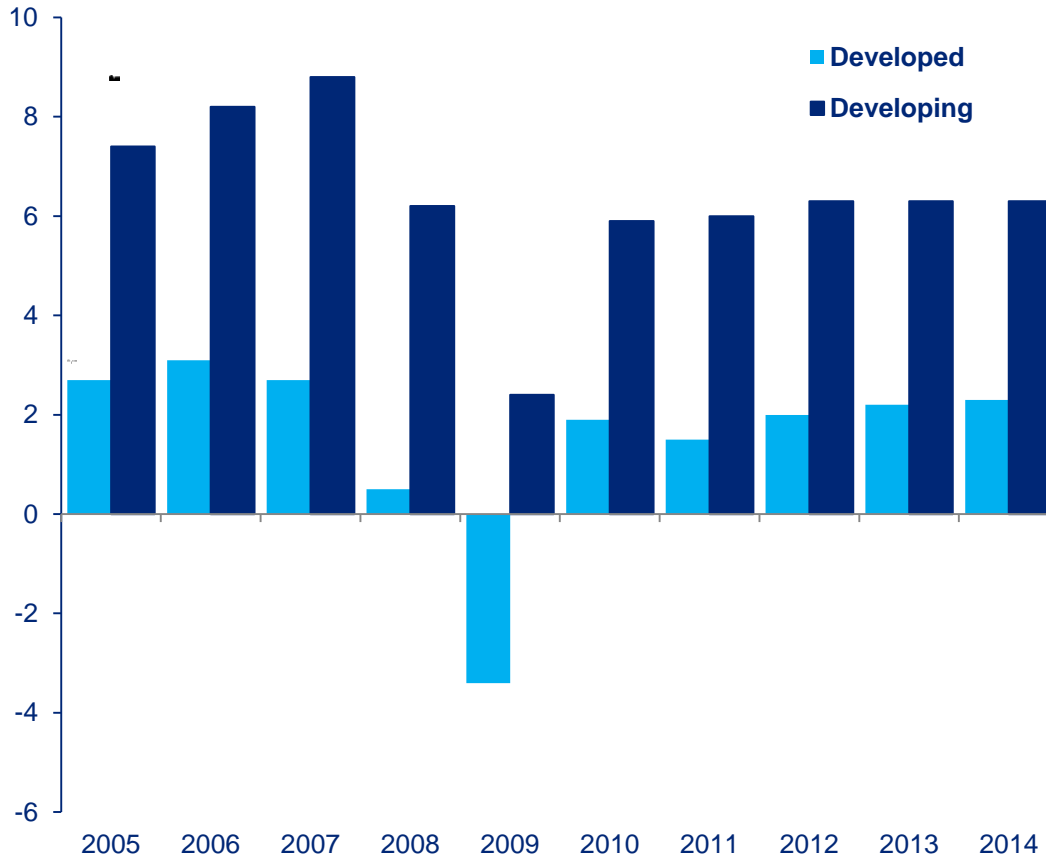
Nairobi, 11th November 2011



Why Africa?

Developing countries are expected to drive growth post the Great Recession – the global patterns are shifting, so are the engines of growth

World GDP Growth: Developing & Developed

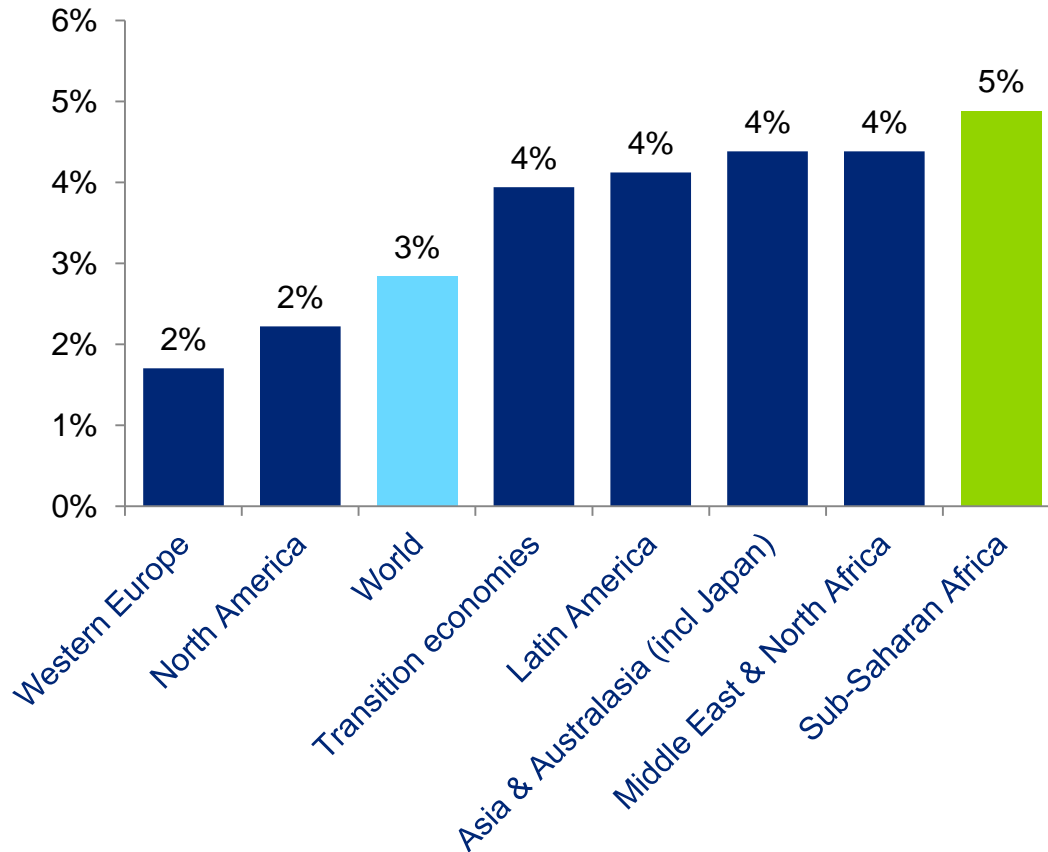


Source: EIU

- The **great recession** has left its indelible imprint on the world, starting as a financial crisis and as a result of an asset bubble.
- It may have passed relatively quickly, thanks mainly to the *success* of the fiscal stimulus packages introduced by the governments of the world, and in some part to the continued growth of the emerging east.
- But it will have a **lasting impact** – predominantly on the behaviour of consumers and lending institutions, particularly those in the developed (western) world.
- The **balance sheets** of consumers in the west are still a long way off being sound – and this is pretty important if 70% of the economy is private consumption (the US).
- And those that have been burnt, will be **cautious** about rushing in too deep into credit again – their appetite has changed.
- In the East, under a different economic model, where savings rates are high, and growth is driven by investment, future prospects seem more positive. The fiscal stimulus packages introduced there have worked exceptionally well.
- The developed world is therefore projected to grow at 2% per annum, whereas the developing world is expected to grow at +6% per annum.

2011 – Sub Saharan Africa leads the growth mandate...

— Average forecast growth per region (2011-15)



- BRICS – refers to member countries Brazil, Russia, India, China and South Africa, commonly known as the "Big Five Emerging Market States."
- According to the IMF, the bloc will account for 61 percent of global growth in three years' time.
- Together, the BRICS account for more than 42% of the world's GDP and could surpass G7 GDP output by 2035
- Sub-Saharan Africa has the potential, the commodities, and untapped markets – and they are less exposed to the vagaries of the west than other developing regions.
- Companies will find investing in the sub Saharan market access easier given the BRICS membership status

Seven African Countries feature in the World's 10 Fastest-Growing Economies (2011-2015)

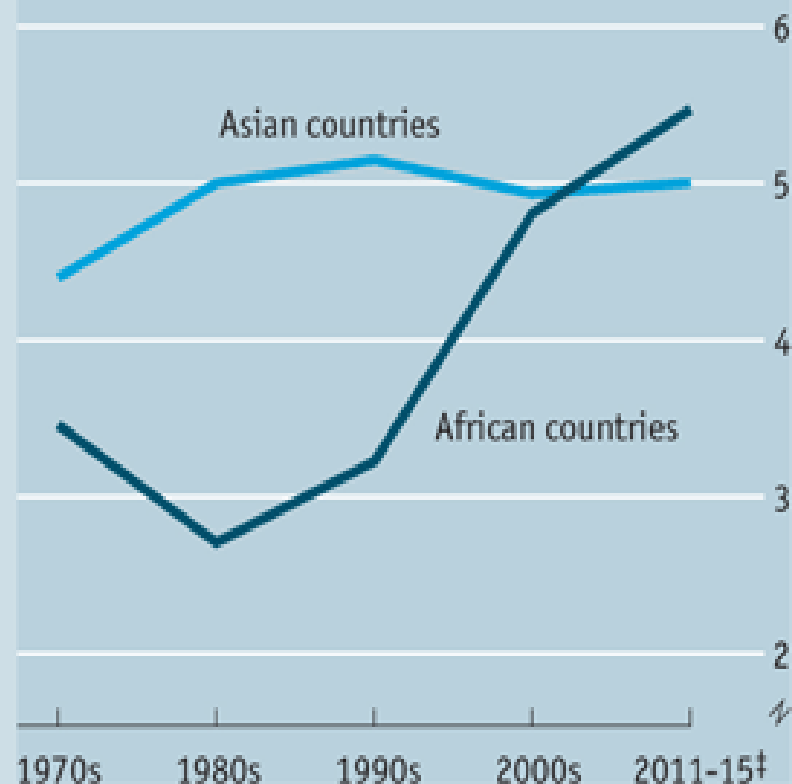
World's ten fastest-growing economies*

Annual average GDP growth, %

2001-2010†		2011-2015‡	
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

Sources: *The Economist*; IMF

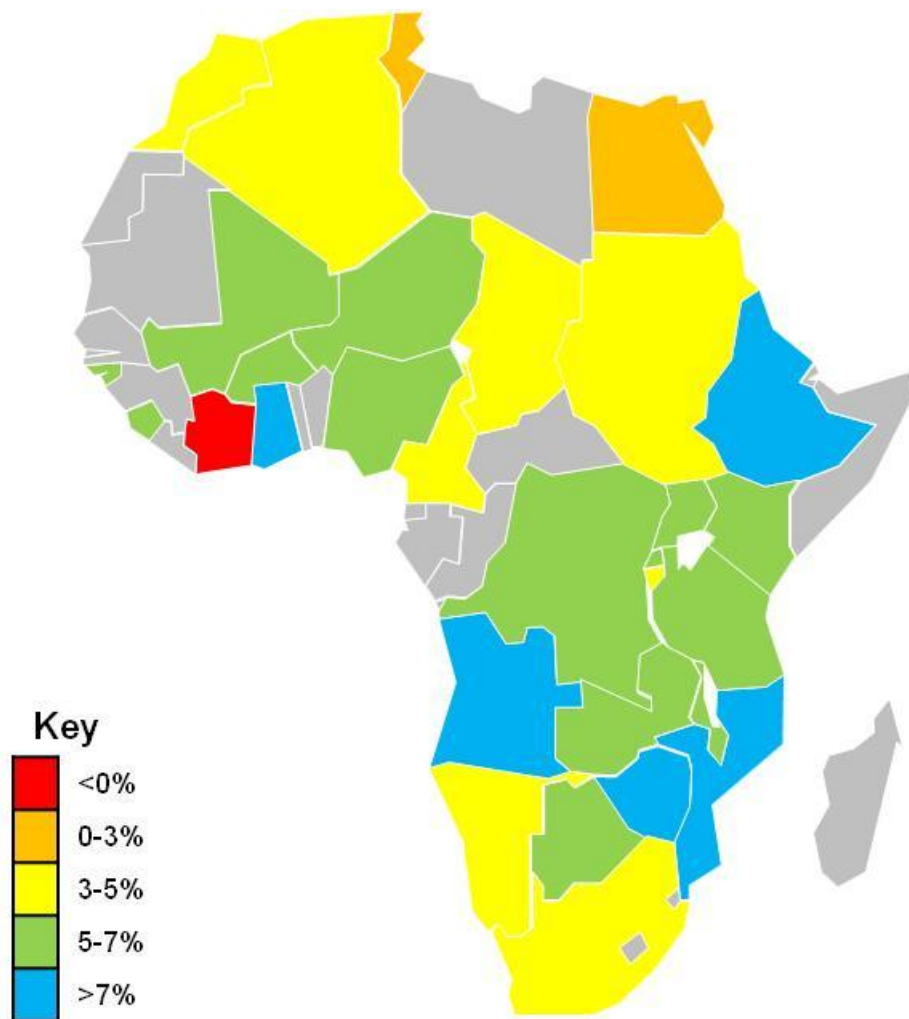
GDP growth, unweighted annual average, %



* Excluding countries with less than 10m population and Iraq and Afghanistan †2010 estimate ‡Forecast

Most economies managed to absorb the effects of the recession due to the fact that Africa is abundant with emerging markets

Growth in next 3 years

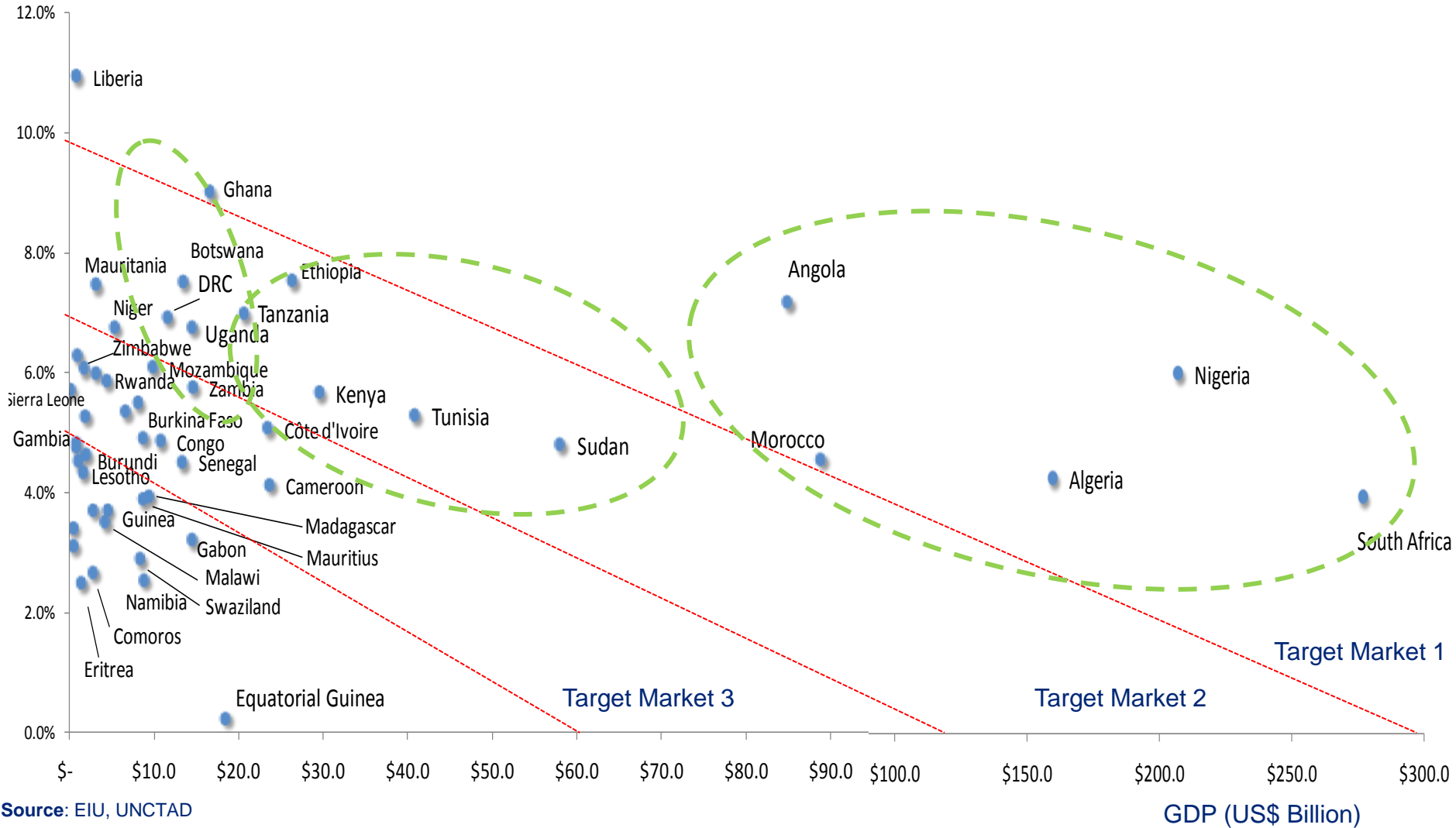


Key points

- Most of the African countries weathered the recession much better than the developed countries. Economic growth estimates for 2011 show that the majority of countries continued growing despite the recession and recent downturns.
- The IMF forecasts global growth for 2011 to be 3%, down from the 6% average from 2004-2008. For sub-Saharan Africa the IMF forecast growth of 5.5%
- The latest EIU forecasts show sub-Saharan growth at 4.6% for 2011 on average, similar to BMI forecasts of 4.4% growth.
- Some countries like the DRC, Zambia, Uganda and Mozambique managed continued growth at rapid rates, and Ethiopia is estimated to have grown at 8%.
- Recovery and growth in 2011 and beyond is forecast to be robust (given assumptions). The IMF forecasts African growth to be 4.8% in 2011, BMI forecasts sub-Saharan growth to be around 5.4% in 2012 and EIU forecasts it at 4.6% and 5.2% resp.
- Countries like Angola, Egypt, Uganda and Tanzania are forecast to rebound strongly growing at 6% and above

Stratifying the market into the size of the countries' economies and their markets and consider how the speed at which these economies are growing

Forecast Average GDP growth (2010-14)



Source: EIU, UNCTAD

GDP (US\$ Billion)

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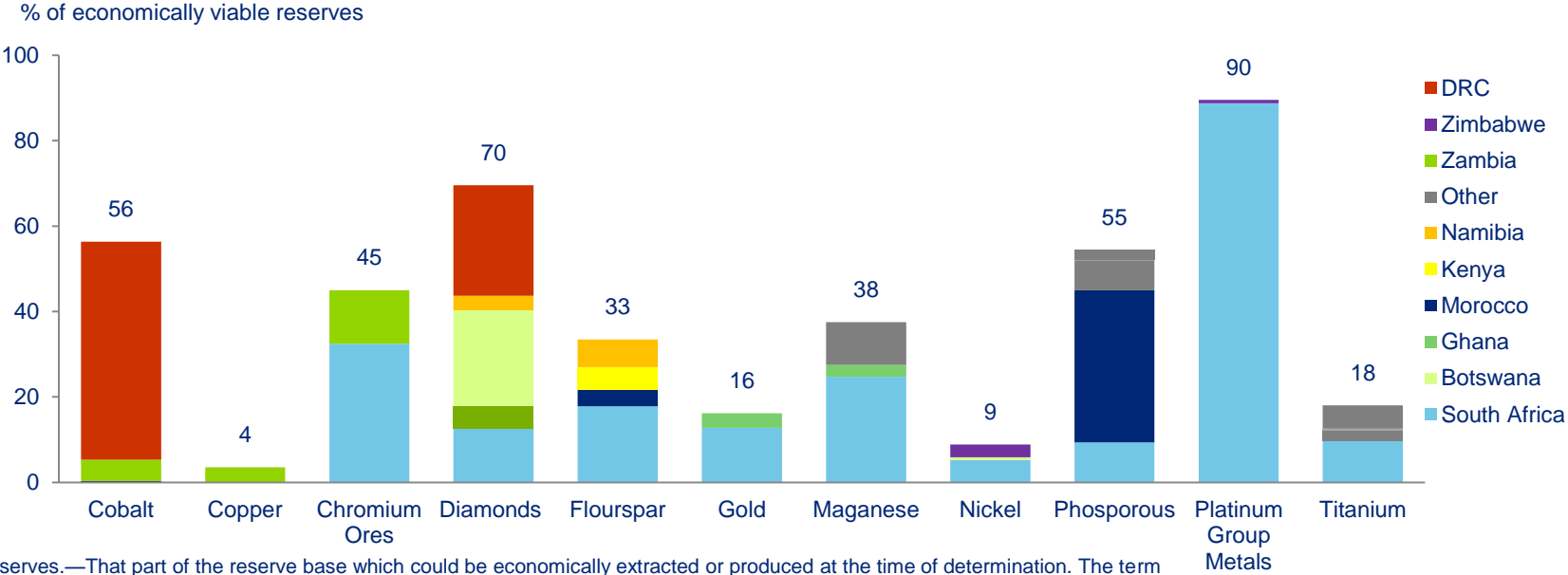
Sector Drivers

Although underexplored, Africa is endowed with nearly a third of the world's economically-viable mineral reserves

Africa's mineral wealth

- Africa produces more than 60 metal and mineral products, including Gold, Platinum Group Elements (PGE), Diamonds, Uranium, Manganese, Chromium, Nickel, Bauxite and Cobalt.
- Although under-explored, the continent holds roughly 30% of the planet's 'economically viable' mineral reserves¹, including roughly 45% of chromium ores, 60% of cobalt, 70% of natural industrial diamonds and 90% of the world's Platinum Group Metals (PGM).
- South Africa's economically viable mineral reserves are by far the largest and most diverse, but many other African countries are underexplored.

Mineral reserves in Africa as % of global reserves



¹ Reserves.—That part of the reserve base which could be economically extracted or produced at the time of determination. The term reserves need not signify that extraction facilities are in place and operative.

Source: USGS mineral reserves

West African countries Angola and Nigeria are heavily reliant on oil and gas production, and are expected to realise strong growth in these industries

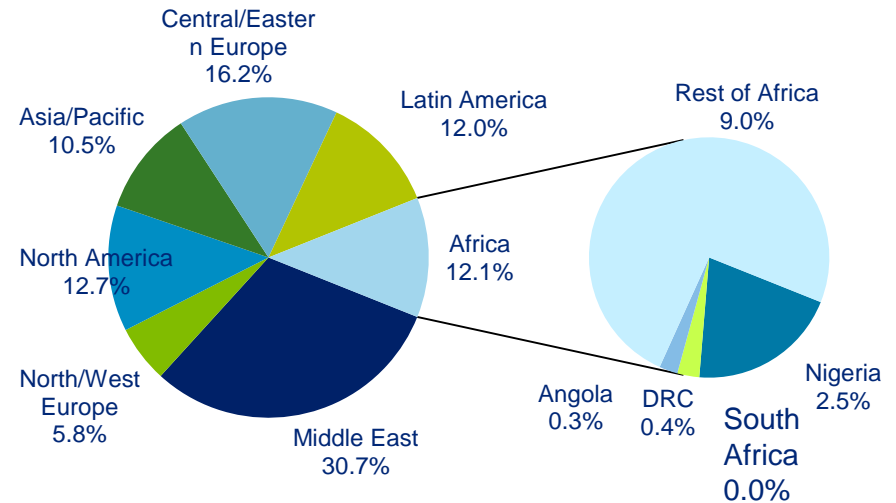
Oil and Gas

- Africa accounts for 12.1% of total global oil production. The majority of this is produced in the Northern African region.
- Nigeria and the DRC and Angola are the only significant producers in Sub-Saharan Africa at present.
- Oil production has started in Ghana in 2011.
- Oil companies currently operating in Nigeria have benefited from the relative calm in the Delta since August 2009. Although the Delta situation is fragile, and is likely to be hit by periodic setbacks, overall oil production should increase in 2011 for the first time since 2005.
- BMI forecasts strong average annual growth in oil production in both Nigeria (7.2%) and Angola (6.0%) over the next 5 years.
- Nigeria and Angola are also the only significant producers of gas on the continent. Nigeria is expected to nearly double production of gas over the next 5 years from 45 bcm to 81 bcm while Angola is expected to quadruple its smaller volumes from 4bcm to 16bcm.

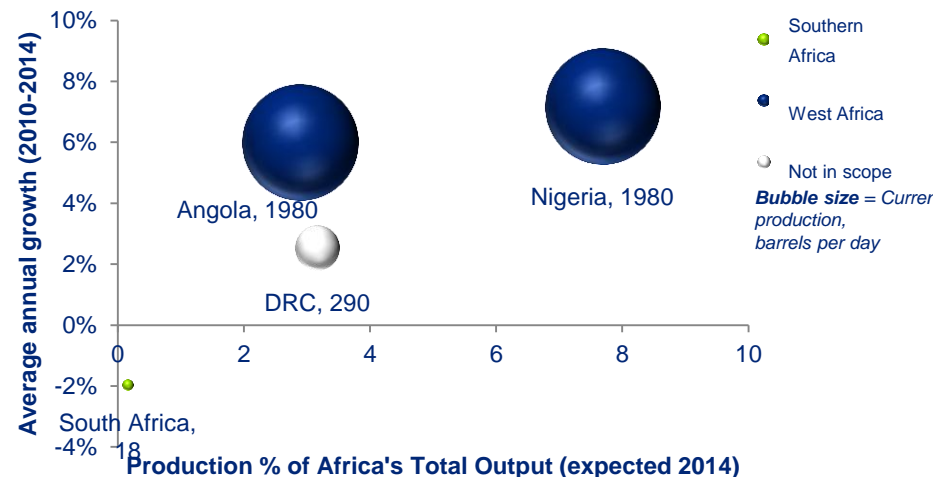
Note: Data and forecasts were sourced from the BMI database, only oil-producing countries are depicted here.

Source: Deloitte, Business Monitor International

Global oil production (2009)



Expected production growth in selected African countries



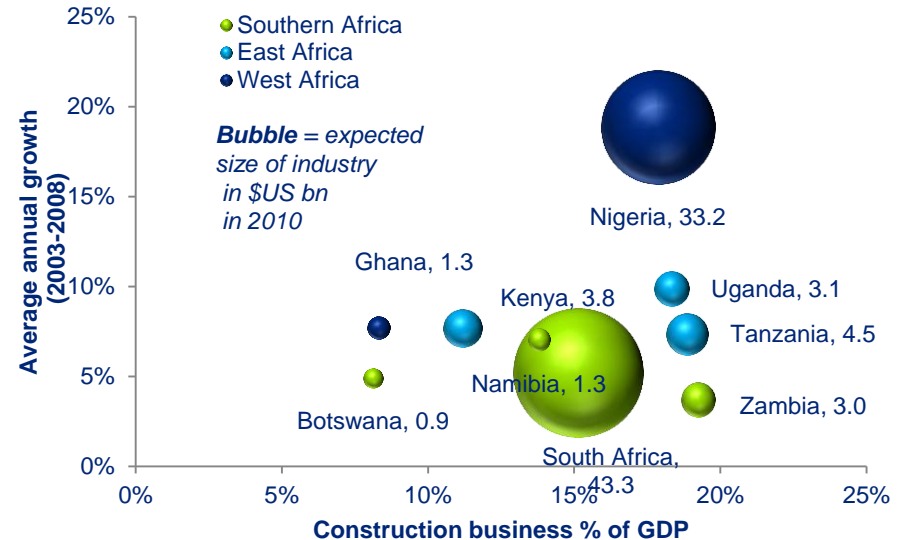
Construction growth in African countries is closely linked to mining activity and donor funding for economic infrastructure

Construction

- The construction sector is an important driver of economic growth in developing countries because it is often associated with infrastructure investment. The industry has strong economic and employment multipliers because it is usually quite labour-intensive.
- Most major civil construction activity in Africa has been associated with mining sector but other typical projects include roads, railways and airports.
- Angola, Uganda and Nigeria are expected to experience the fastest growth in construction (of those countries for which forecasts from the BMI are available). This is on the back on strong growth in the mining and oil sectors
- Construction is one of the most buoyant industries in Uganda largely because of donor funding for infrastructure works and significant private Major projects include a US\$2bn oil refinery project, a new factory worth US\$120mn and 250 homes worth US\$5,000 each.

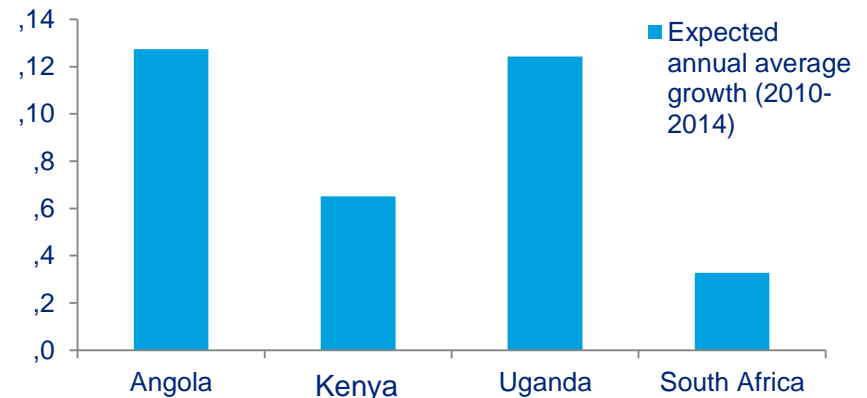
Notes: Data on construction's contribution to GDP were sourced from various central banks, the EIU and BMI industry databases. Most of the GDP contribution data was based on 2008 but some was from earlier years. This was converted to actual expected size in 2010 using IMF October 2009 WEO forecasts of country GDP in 2010 in \$US bn. Forecasts were from BMI, but only for selected countries.

Relative size and importance of construction sector



Sources: BMI, EIU, IMF word economic outlook

Expected growth in selected African countries



Source: Deloitte, Business Monitor International

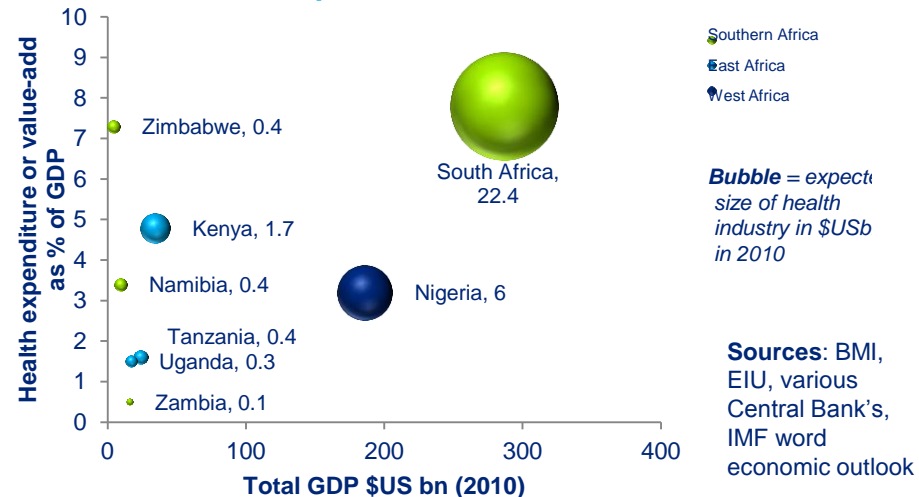
The health sector is relatively small and underdeveloped in most African countries, but with significant upside potential

Overview of the health sector

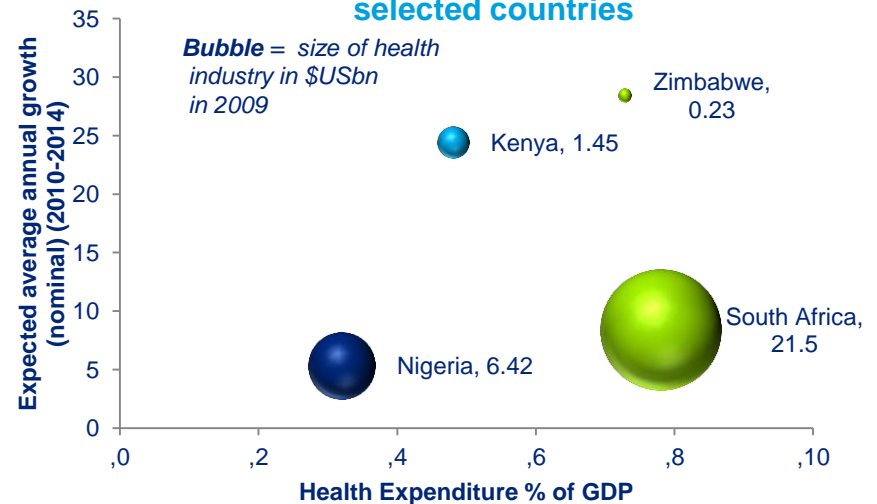
- The health industry/sectors is relatively small in most of the countries we surveyed with most expected to having spent less than \$1bn on health in 2010.
- South Africa and Nigeria are the only countries that have spent more than \$5bn on health in 2010. Spending on health in these two countries is expected to exceed 5% on average over the next five years (unadjusted for inflation).
- Zimbabwe's health spending will recover quite rapidly but off a very small base after having been in sharp decline.
- Kenya's health care industry spending is expected to rise quite strongly

Notes: Data on health, consumer business and financial services industries contribution to GDP were sourced from various central banks, the EIU and BMI industry databases. Most of the GDP contribution data was based on 2008 but some was from earlier years (2006 and 2007). This was converted to actual expected size in 2010 using IMF October 2009 WEO forecasts of country GDP in 2010 in \$US bn.

Relative size and importance of health sector



Expected growth in health, selected countries



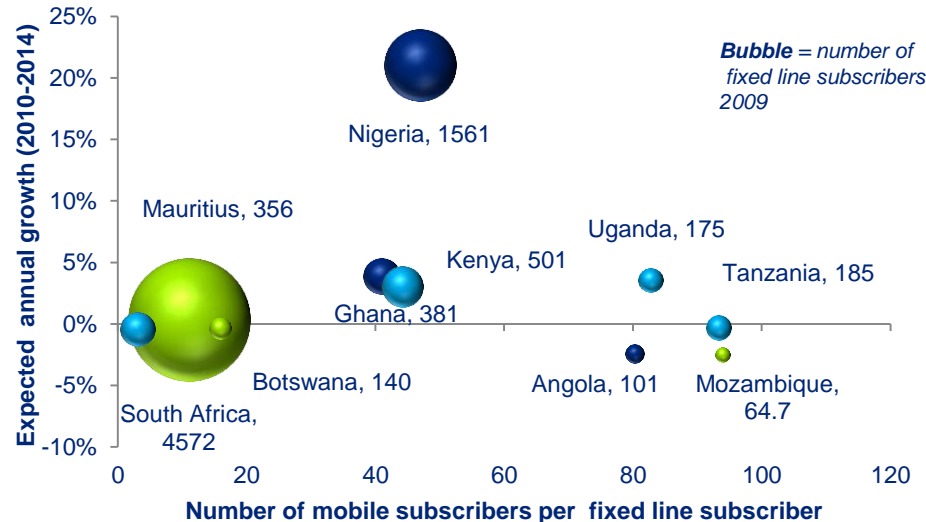
Africa has the fastest growing telecommunications industry in the world, strong growth in mobile phone subscription is forecast over the next five years

Telecommunications in Africa

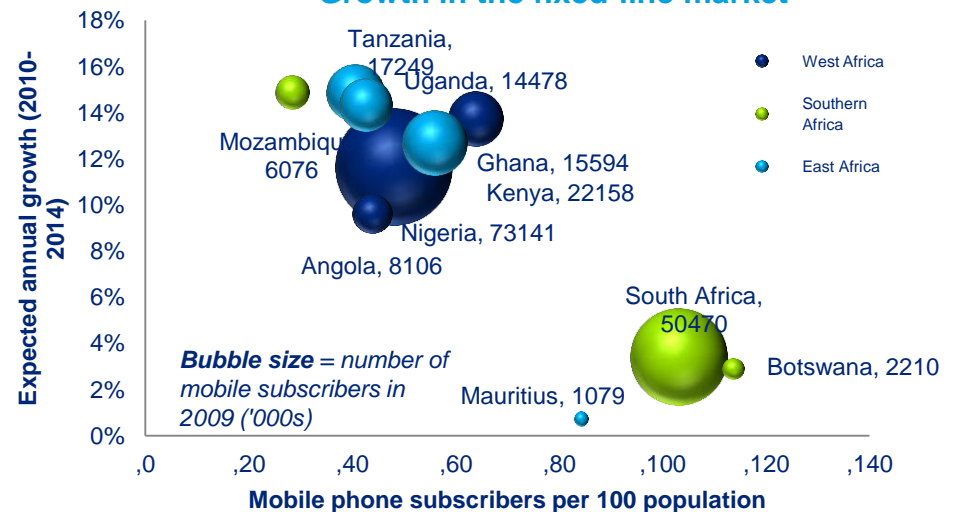
- Africa has the fastest growing telecommunications industry in the world due largely to the rapid expansion of the mobile phone market in many countries.
- Nigeria has the largest number of mobile phone subscribers (73 million) followed by South Africa with (50 million).
- The mobile phone market in South Africa has become quite saturated with more than 1 subscription per person and is only expected to grow by between 2 and 4% over the next 5 years.
- By contrast most East and West African countries considered in this study are expected to achieve double-digit growth in subscriptions in the next 5 years.
- The only African market that is still expected to achieve strong growth in fixed line subscriptions over the next 5 years is Nigeria.

Notes: Data on the size and growth in the telecommunications market in terms of number of subscribers was sourced from BMI. We used this data instead of GDP data because it gives one a more accurate indication of volume or 'real' growth and differentiates between fixed and mobile communication. Telecommunication GDP is available in some cases, but only for a small number of countries.

Growth in the mobile market



Growth in the fixed-line market

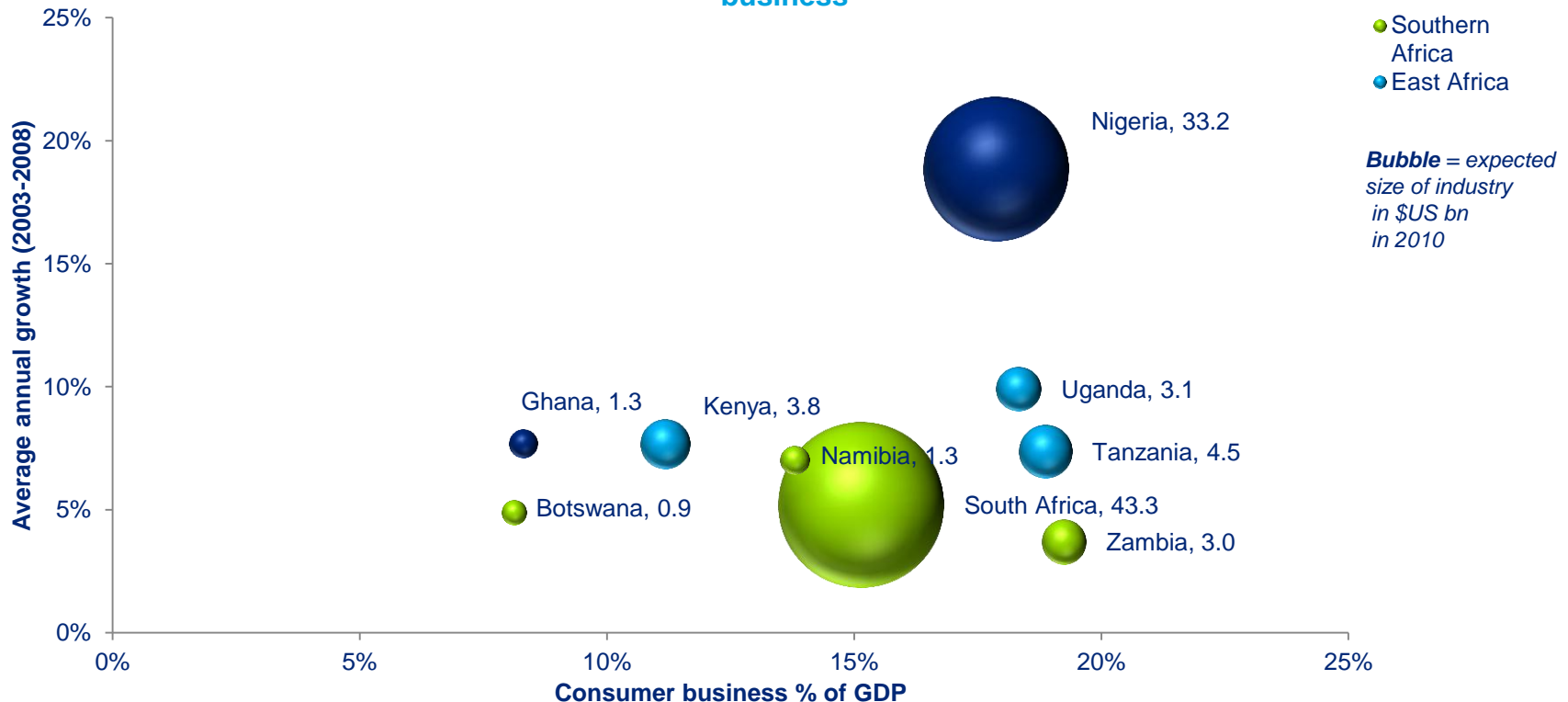


Consumer business is a mainstay of most African economies

Overview of Consumer Business – Wholesale/Retail trade, Catering and Accommodation

- Consumer business (which include wholesale/retail trade, catering and accommodation) contributes at least 10% of GDP to most Eastern and Southern African economies.
- East African countries like Uganda, Kenya and Tanzania have achieved the fastest average annual growth in consumer business over the past five years (between 6 and 12%), due in part to strong growth in the Tourism industry – particularly in Tanzania and Kenya.

Historical growth and relative importance of consumer business



Source: Deloitte, Business Monitor International

Deloitte in Africa



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