Joining hands to unlock Africa’s Potential

A case for India - Japan Collaboration

Janaki Chaudhry, TATA International Limited

S. Kuppuswamy, Shapoorji Pallonji Group
Drivers of Africa’s growth story

Improving Infrastructure
- Bridging the deficit could boost GDP by nearly 2.2%\(^2\)
- Annual needs above $93 Billion\(^2\)

Macro and political stability
- ↓ Inflation, debt and currency volatility substantially reduced
- Political and economic risk steadily improving

The commodity boom
- World commodity demand increasing
- Global cost-competitive location for many

Ongoing economic reforms
- Widespread business-friendly reforms
- Mutual agreements on cross-border trade

Demographic shifts
- World’s largest working age population by 2035
- 100+ cities with population > 1 million by 2025
- ↑ Discretionary spending power\(^1\)

Access to inter-national capital
- Average capital inflow > remittances + aid
- Among highest return on FDI (9%+)
- Aid in the form of funds and grants

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\(^1\) Discretionary spending power implies income >USD 5,000 at PPP
\(^2\) World Bank Study
SOURCE: IHS Economics; IMF; Business Monitor International; C-GIDD; World Bank Group doing business 2013; UNCTAD – World Investment Report 2013; McKinsey Global Institute Cityscope 2.2; Press Search; McKinsey analysis
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
## Country-wise and sector-wise FDI into Africa

### Top 5 countries by FDI\(^1\) flow into Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Per cent (2003–2012)</th>
<th>100% = USD 1,013 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5.1 %</td>
<td>5.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.4 %</td>
<td>7.7</td>
</tr>
<tr>
<td>India</td>
<td>8.3 %</td>
<td>9.1</td>
</tr>
<tr>
<td>UK</td>
<td>9.1 %</td>
<td>9.8</td>
</tr>
<tr>
<td>United States</td>
<td>47.9 %</td>
<td>2003–2012</td>
</tr>
</tbody>
</table>

\(^1\) Calculated based on FDI greenfield and M&A activity (both announced and existing investments); Excludes alliances, partnerships, privatization and SWF investments.

### Size of overall FDI investment by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Per cent (2003–2012)</th>
<th>USD billion</th>
<th>India’s share of total FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy &amp; Mining</td>
<td>34.1</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>Hotels &amp; Tourism</td>
<td>29.0</td>
<td>2.8%</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>12.8</td>
<td>23.8%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.1</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Software &amp; IT services</td>
<td>8.9</td>
<td>6.6%</td>
<td></td>
</tr>
<tr>
<td>Business Services</td>
<td>7.0</td>
<td>4.1%</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Entertainment</td>
<td>6.3</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.4</td>
<td>11.7%</td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>1.4</td>
<td>20.1%</td>
<td></td>
</tr>
</tbody>
</table>

\(^2\) Rest of world. SOURCE: FDI Markets; Dealogic; press search; expert interviews; McKinsey analysis

China plans to take it’s to $100 billion in the next phase; Japan’s FDI in Africa is approx. $6 billion.

India’s share of total FDI is significant.

China plans to take it’s to $100 billion in the next phase; Japan’s FDI in Africa is approx. $6 billion.

Significant potential for percent of FDI by Japan to be scaled-up.

Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
Composition of African trade by trading partner

Per cent

Total trade, 2013
USD billion

Other/ Unclassified 93
North America 117
Europe 481
Latin America 61
Middle East 118
Intra-Africa 142
Other Asia 142*
China 211
India 93
*Japan ~30

1 Figures may not sum to 100% due to rounding error. SOURCE: IHS Economics – World Trade Service 2013; Bloomberg, MGI analysis
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
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India’s value proposition and aspiration for Africa

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Key Takeaways
### Indian companies with African Footprint

#### Agriculture
- Jain Irrigation Systems Ltd.
- Shapoorji Pallonji
- Karuturi Global Limited

#### Manufacturing
- Tata
- Sanmar
- Rashtriya Chemicals & Fertilizers Ltd.

#### Consumer Brands
- Tata Motors
- Bajaj Distinctly Ahead
- Mahindra

#### Communication/ IT
- Tata Consultancy Services
- Wipro
- Airtel
- Aptech

#### Pharmaceuticals
- Cipla
- Medpro
- Dr. Reddy's
- Ranbaxy Laboratories Limited

### Source:
- Company websites
- Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
Indian companies with African Footprint

<table>
<thead>
<tr>
<th>Infrastructure/ Construction</th>
<th>Financial services</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shapoorji Pallonji</td>
<td>Bank of India</td>
<td>ESSAR</td>
</tr>
<tr>
<td>TATA PROJECTS LIMITED</td>
<td>ICICI Bank</td>
<td>Jindal Steel &amp; Power</td>
</tr>
<tr>
<td>GAMMON</td>
<td>Bank of Baroda</td>
<td>IndianOil</td>
</tr>
<tr>
<td>AFCONS</td>
<td>State Bank of India</td>
<td>Aditya Birla</td>
</tr>
<tr>
<td>STERLING AND WILSON</td>
<td></td>
<td>Vedanta</td>
</tr>
<tr>
<td>Punj Lloyd</td>
<td></td>
<td>ONGC Videsh</td>
</tr>
</tbody>
</table>

SOURCE: Company websites
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”. March 2014
Rock Phosphate Terminal at Aqaba, Jordan
Road Projects
World’s Tallest Rail Bridge – J&K, India
Longest Span Cantilever Bridge – Meghalaya, India
Industrial Installations
Iconic Buildings - Seat of Government, Ghana
## India’s possible aspiration for Africa

All figures in USD

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India’s import from Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>India’s exports to Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT services</td>
<td>1–2 bn</td>
<td>7 bn</td>
</tr>
<tr>
<td>Consumer goods(^2)</td>
<td>&lt;1 bn</td>
<td>17 bn</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>&lt;1 bn</td>
<td>25 bn</td>
</tr>
<tr>
<td>Agriculture (and allied)</td>
<td>&lt;1 bn</td>
<td>5 bn</td>
</tr>
<tr>
<td><strong>Overall(^3)</strong></td>
<td>35 bn</td>
<td>160 bn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India’s FDI in Africa</strong></td>
<td>60 bn</td>
<td>100 bn</td>
</tr>
</tbody>
</table>

1 Corporate sector revenues from exports and local sales from Africa, 2 Includes only FMCG category; 3 The overall revenues will not add up as sector revenues include exports and sales in Africa. SOURCE: IHS Economics – World Trade Service 2013; McKinsey analysis

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Key Takeaways
Who is building Africa’s infrastructure?

~ USD 222 billion is being invested in projects with value over USD 50 million, ongoing as of June 1, 2013.

<table>
<thead>
<tr>
<th>Region</th>
<th>EU/ US</th>
<th>Africa(^1)</th>
<th>China</th>
<th>Brazil</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Africa</td>
<td>50%</td>
<td>20%</td>
<td>11%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>East Africa</td>
<td>37%</td>
<td>13%</td>
<td>19%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Central Africa</td>
<td>29%</td>
<td>41%</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southern Africa</td>
<td>28%</td>
<td>20%</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>59%</td>
<td>19%</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Significant Potential for India and Japan to increase their share of participation

China’s consortium approach seen in Sicomines

Sicomines – A barter arrangement (JV) between DRC\(^1\) and China, where China is allotted mines in return for infrastructure development (roads, hospitals, etc.)

- Exim Bank of China
  - Responsible for funding the mining and infrastructure development/refurbishment projects in Congo
  - Competing with traditional lenders like IMF, World Bank Group (who insist on HIPC\(^2\) debt relief)

- China Railway Engineering Corporation – CREC
  - Responsible for resource extraction activities

- Sinohydro
  - Involved to reduce performance risk on one company.

- Zhejiang Hyayou Cobalt
  - For its expertise in mining

- China Machinery Engineering Corporation - CMEC
  - Added in the JV for its expertise in mining and infrastructure

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1 Democratic Republic of Congo, 2 Heavily Indebted Poor Countries; SOURCE: Working paper (2013) by South African Institute of International Affairs; press search
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
Example: Participation in early stage studies to identify new opportunities

- France has signed a new partnership framework agreement with South Africa and Nigeria to develop its infrastructure and assist in urban development
  
  - French company Alstom, in partnership with Taleveras group, assisting in rehabilitation plans for power station in Nigeria; also supplying a 160 megawatt gas turbine
  
  - Gibela, a joint venture led by Alstom assisting in South Africa revamping its passenger rail network; supplying 600 passenger trains and building a local manufacturing facility

SOURCE: Web and press search
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”. March 2014
India-Japan-Africa: Win-Win-Win Partnership

**India’s needs**
- Economic Growth
- Effective utilization of aid
- Project Exports
- Long-term access to natural resources on a fair basis

**Japan’s needs**
- Economic Growth
- Aid disbursement on OECD guidelines
- Equipment Exports
- Long-term access to natural resources on a fair basis

**Africa’s Requirements**
- Export Earnings
- Constructive FDI
- Cost effective Infra Development
- Low cost healthcare solutions
- Job opportunities
- Education and skill development

**Japan’s value proposition**
- **Technology Leader**: World leader in the supply of quality equipment and technology solutions
- **Technology Transfer**: Japan has experience in being able to transfer technology in local partnerships
- **Capital Availability**: Japan offers competitive finance through its bond markets or JBIC financial instruments
- **Global Firms**: Global firms with history of cross border partnerships and active presence in India
- **Africa Commitment**: USD 32 billion pledged by the Japanese Prime Minister over a five year period during TICAD V held in May 2013

**India’s value proposition**
- **Low cost innovation and operating model**: (Appropriate, Adaptive, Affordable (AAA) solutions)
- **Cultural affinity and understanding**: Historical, political and cultural ties
- **Skill and talent development**: Transfer technology and build capacity
- **Entrepreneurship and service orientation**: Navigate ambiguity; maintain global standards
- **Infrastructure Development**: Frugal engineering, efficient construction

**SOURCE**: McKinsey analysis

Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”, March 2014
<table>
<thead>
<tr>
<th>Leverage the strengths...</th>
<th>...while managing the risks through best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utilize India’s talent</strong></td>
<td><strong>Provide a holistic solution</strong></td>
</tr>
<tr>
<td>▪ Bring in Indian managerial and technical talent for design, training, and execution management</td>
<td>▪ Bid as a consortium for new projects to provide an end-to-end solution</td>
</tr>
<tr>
<td>▪ Empower and transfer skills to local talent in Africa</td>
<td>▪ Have control across the value chain, either on your own or through partnerships</td>
</tr>
<tr>
<td><strong>Capital + Expertise</strong></td>
<td><strong>Ensure project viability</strong></td>
</tr>
<tr>
<td>▪ Get involved in early discussions on projects – fund very early stage studies</td>
<td>▪ Focus on countries where consumer pays “cost reflective pricing” rather than relying on government subsidy</td>
</tr>
<tr>
<td>▪ Ensure fast commissioning of projects with low gestation period</td>
<td>▪ Sign PPA¹ with credible “distribution company” for demand guarantee and lower cost of borrowed capital</td>
</tr>
<tr>
<td>▪ Tie-up with BTG² manufacturers at an early stage to ensure easy, low cost access to equipments</td>
<td>▪ Bid for solicited PPAs where many demand side issues have been sorted out</td>
</tr>
<tr>
<td><strong>Secure low-cost funding</strong></td>
<td><strong>Be a responsible alliance</strong></td>
</tr>
<tr>
<td>▪ Secure funding from JICA, JBIC, Government of India</td>
<td>▪ Proactively invest in CSR activities in the project area at an early stage of the project</td>
</tr>
<tr>
<td></td>
<td>▪ Follow ethical business practices while dealing with government</td>
</tr>
<tr>
<td></td>
<td>▪ Sell Indian-Japanese solutions as being more “fit-for-purpose” and “maintainable” in the long term compared to other countries</td>
</tr>
</tbody>
</table>

¹ Power Purchase Agreement
² Boiler, Turbine, Generator

SOURCE: McKinsey analysis
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa’s potential”. March 2014
A representative funding-execution arrangement between India and Japan is shown below.

### Funding

<table>
<thead>
<tr>
<th>India (~30%)</th>
<th>Japan (~70%)</th>
</tr>
</thead>
</table>

### Execution

<table>
<thead>
<tr>
<th>India (~70%)</th>
<th>Japan (~30%)</th>
</tr>
</thead>
</table>

A representative arrangement for viability gap funding by India and Japan for scaling up engagement in Africa is shown below.

PPP Projects in Africa (10x)

- Viable
- Aid
- India-Japan LOC (1x)

Unviable
## Creating a pool of funds for Infrastructure in Africa

<table>
<thead>
<tr>
<th><strong>Debt</strong></th>
<th><strong>Equity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- <strong>Buyers Credit</strong> from EXIM Bank of India and JBIC for projects executed jointly by India and Japan in Africa</td>
<td></td>
</tr>
<tr>
<td>- Explore possibility for partial guarantees from JBIC to EXIM Bank for raising <strong>Samurai bonds of longer maturity (&gt; 5 Years)</strong> for funding projects to be jointly executed in Africa</td>
<td></td>
</tr>
</tbody>
</table>
| **Equity fund** can be established as a collaborative initiative.  
  - Representative parties and stake can include: JBIC, EXIM Bank of India, and Private Investment Bank  
  - The EXIM Bank of India can front-end negotiations to develop such a collaborative arrangement |
| - **Feasibility studies** to establish viability of projects through aid can be funded jointly by Japan and India |

- India and Japan need to work jointly to identify key projects and execute them together, using collaborative funding arrangements as identified above
- Low-cost Japanese funds combined with low-cost Indian development skills can be winning combination
**Illustrative projects for India-Japan partnership**

<table>
<thead>
<tr>
<th>Project</th>
<th>Details</th>
</tr>
</thead>
</table>
| **LAPSSET Corridor**             | - A few berths out of a total of 32 berths in the Lamu Port can be executed jointly by India and Japan, apart from other components of the LAPSSET corridor  
- The Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) Corridor includes the Lamu port, a standard gauge railway line, road network, oil pipelines, oil refinery, three airports, and three resort cities  
- The total investment is around $24.5 billion for all components of LAPSSET |

<table>
<thead>
<tr>
<th>Ghana Highway Authority Projects</th>
<th></th>
</tr>
</thead>
</table>
|                                  | - Ghana Highway Authority has several projects, organized under seven lots; few lots can be executed jointly by India and Japan. The value of projects in Lots 1-7 are as follows:  
1. Construction + Upgrading of Elubo – Asemkrom - Enchi: $ 205 million  
3. Reconstruction to asphaltic concrete of Goaso – Sunyani – Buoku: $ 140 million  
4. Asphaltic overlay of Buoku – Wenchi – Bamboi: $ 70 million  
5. Asphaltic overlay of Bamboi – Sawla: $ 125 million  
6. Asphaltic overlay of Sawla – Wa: $ 90 million  
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Key Takeaways
An India - Japan alliance can unlock value in Africa

- **Strategic Partnership**
  - Common Interests to ensure balance of power
  - Strong diplomatic ties between the countries – The Prime Minister of Japan was the chief guest at the recently concluded Republic Day Celebrations
  - Common focus on development
    - At the Tokyo International Conference on African Development (TICAD) in 2013, Japan pledged $32 billion over five years
    - At the India-Africa Forum Summit in 2011, the Government of India pledged $5 billion over a three year period

- **Synergies**
  - Japanese technology can be combined with appropriate/ frugal engineering and construction expertise from India to execute projects in an economical manner and engage on a larger scale in Africa

- **Developmental Impacts**
  - Financing and execution of key infrastructure projects in Africa to support its growth; a World Bank study estimates an annual amount of $93 billion for 10 years to support Africa’s infrastructure requirement
An India - Japan alliance can unlock value in Africa

Benefits of the India-Japan Alliance

- Geo-politically sound partnership
- Cost of long-term borrowing for projects would be lower due to high Japanese sovereign rating
- Projects of large size can be executed; Indian companies can execute service contracts that go beyond the extent of India’s funding
- Japanese companies may enhance their profitability and contribution that may have been otherwise outsourced to third parties
- Possibility for Japanese companies to set up a JV in India and utilize India as a manufacturing hub
- India’s goodwill and Japanese reputation for quality technology can be advantageous in securing resource investments and participating in developmental projects in Africa
- Enhanced potential for technology exports from Japan as its project participation in Africa increases
- A partnership that can engage on a larger scale would create a positive image for India and Japan in Africa
An India - Japan alliance can unlock value in Africa

**Way Forward**

- Prepare a list of possible projects which can be executed using Indian and Japanese funding
- Speedy processing of application creation and submission for availing joint line of credit
- Ensure generation of employment opportunities for Africa in the execution framework
- Set a target for engagement in Infrastructure development of Africa
- Engage Indian and Japanese companies with proven track record in Infrastructure development in Africa.
Thank You