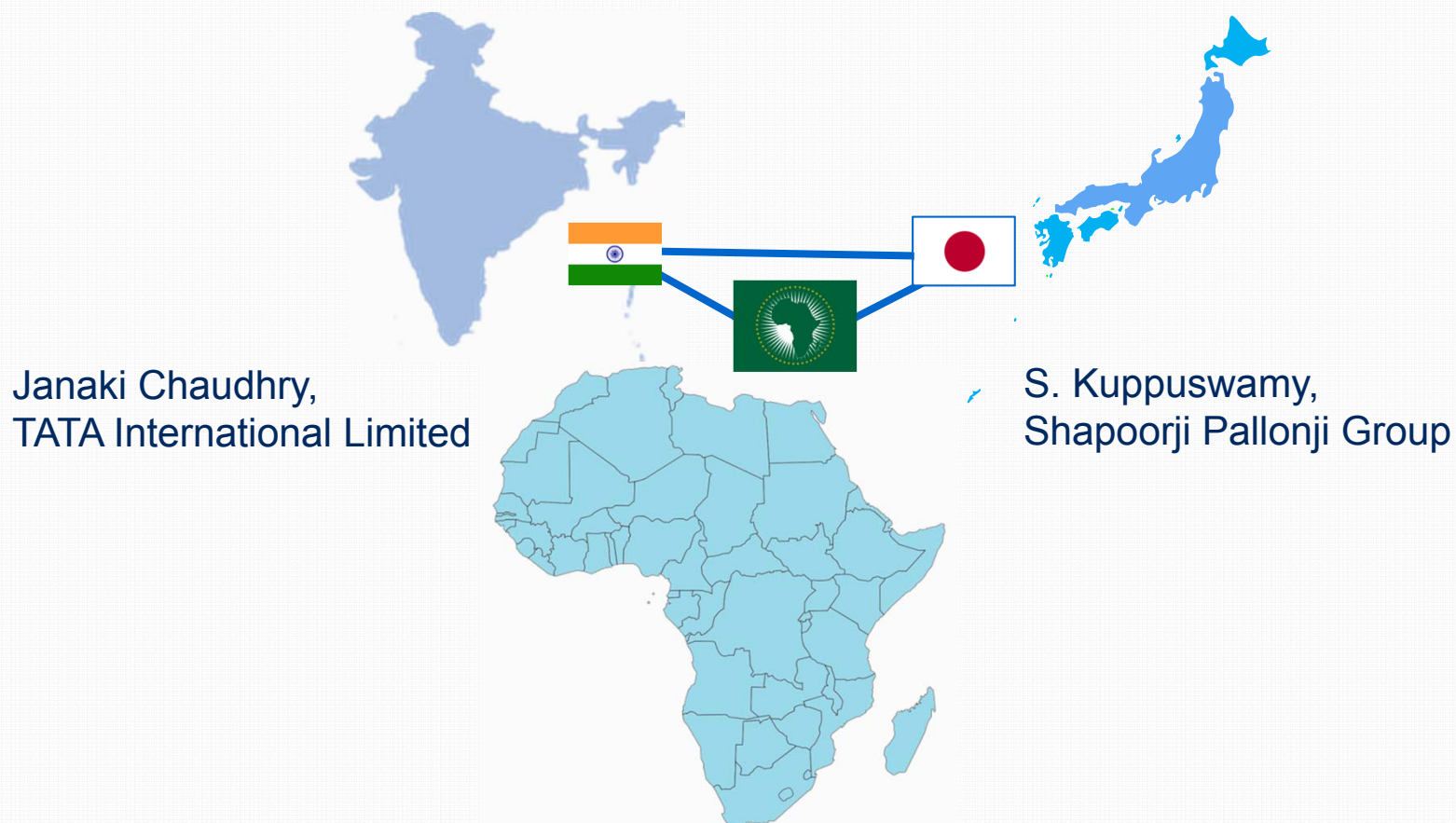




Confederation of Indian Industry

# Joining hands to unlock Africa's Potential

## A case for India - Japan Collaboration



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# Drivers of Africa's growth story



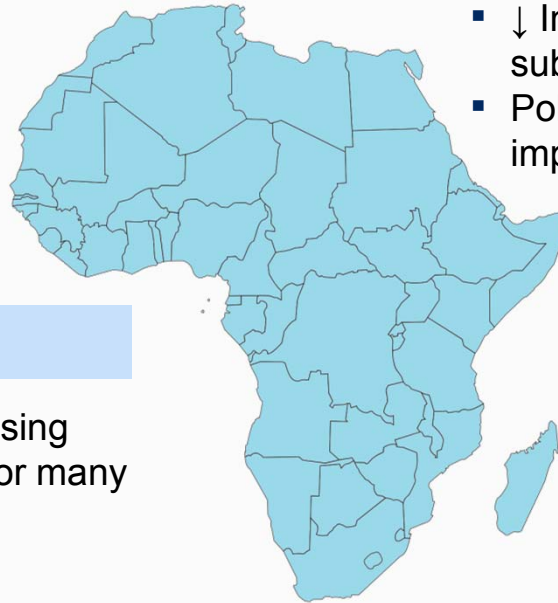
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## Improving Infrastructure

- Bridging the deficit could boost GDP by nearly 2.2%<sup>2</sup>
- Annual needs above \$ 93 Billion<sup>2</sup>

## 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<sup>1</sup>

## Access to inter-national capital

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

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

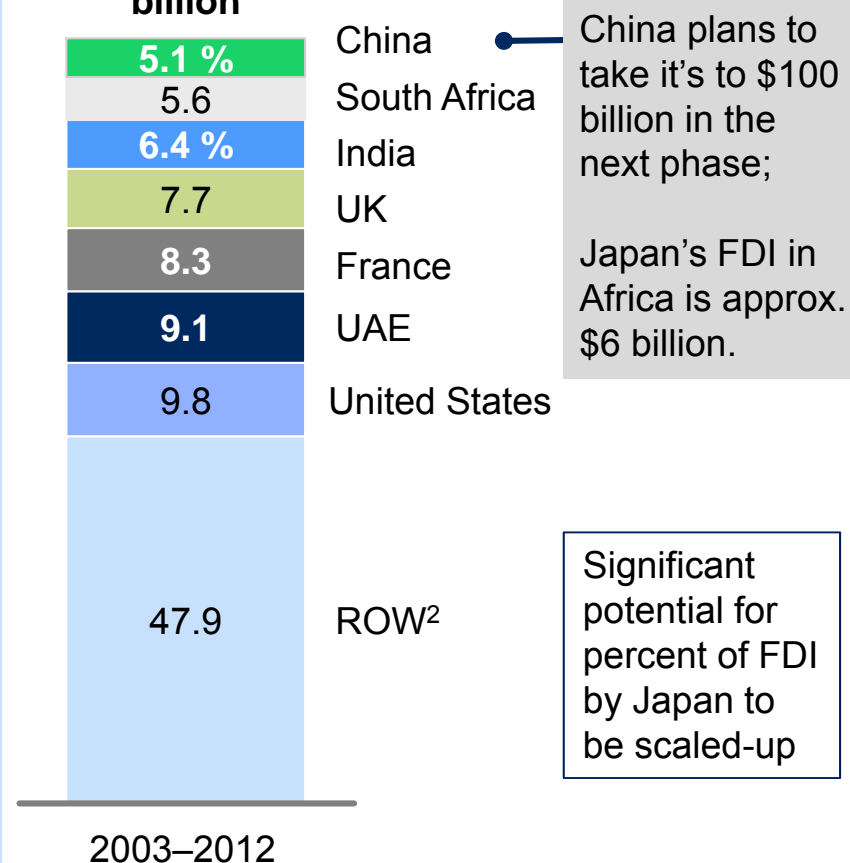
Slide adapted from McKinsey Presentation: “Joining hands to unlock Africa's potential”, March 2014

# Country-wise and sector-wise FDI into Africa

## Top 5 countries by FDI<sup>1</sup> flow into Africa

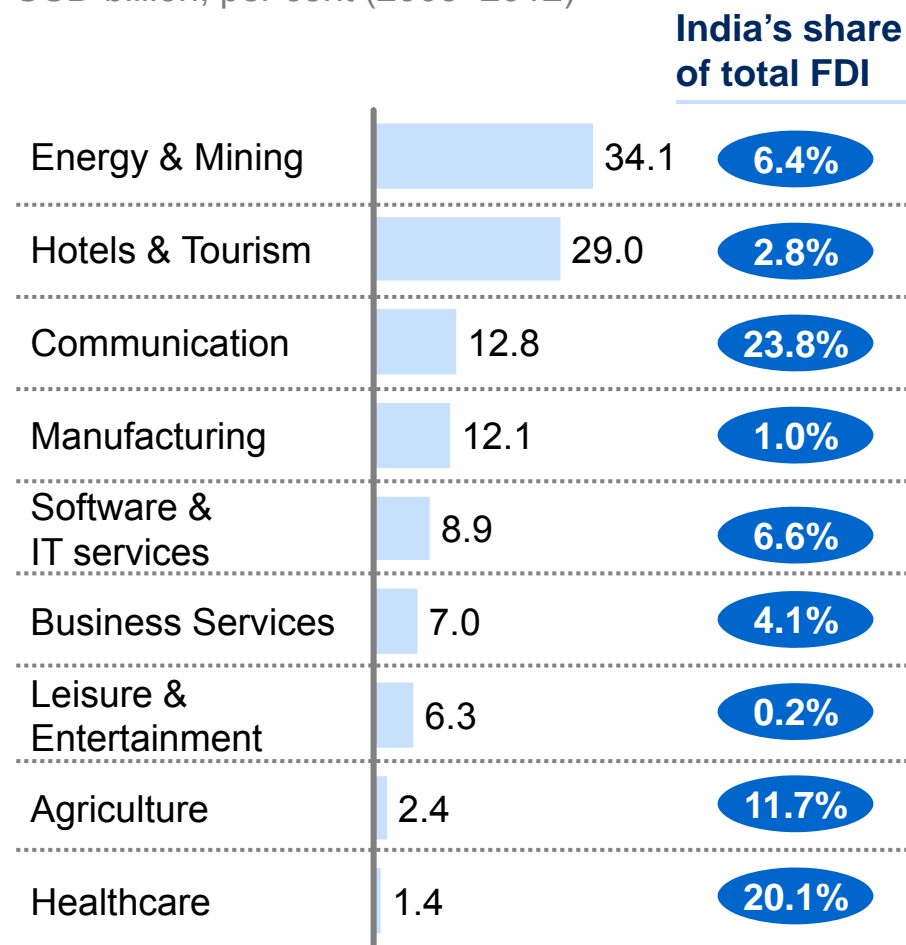
Per cent (2003–2012)

**100% = USD 1,013 billion**



## Size of overall FDI investment by sector

USD billion, per cent (2003–2012)

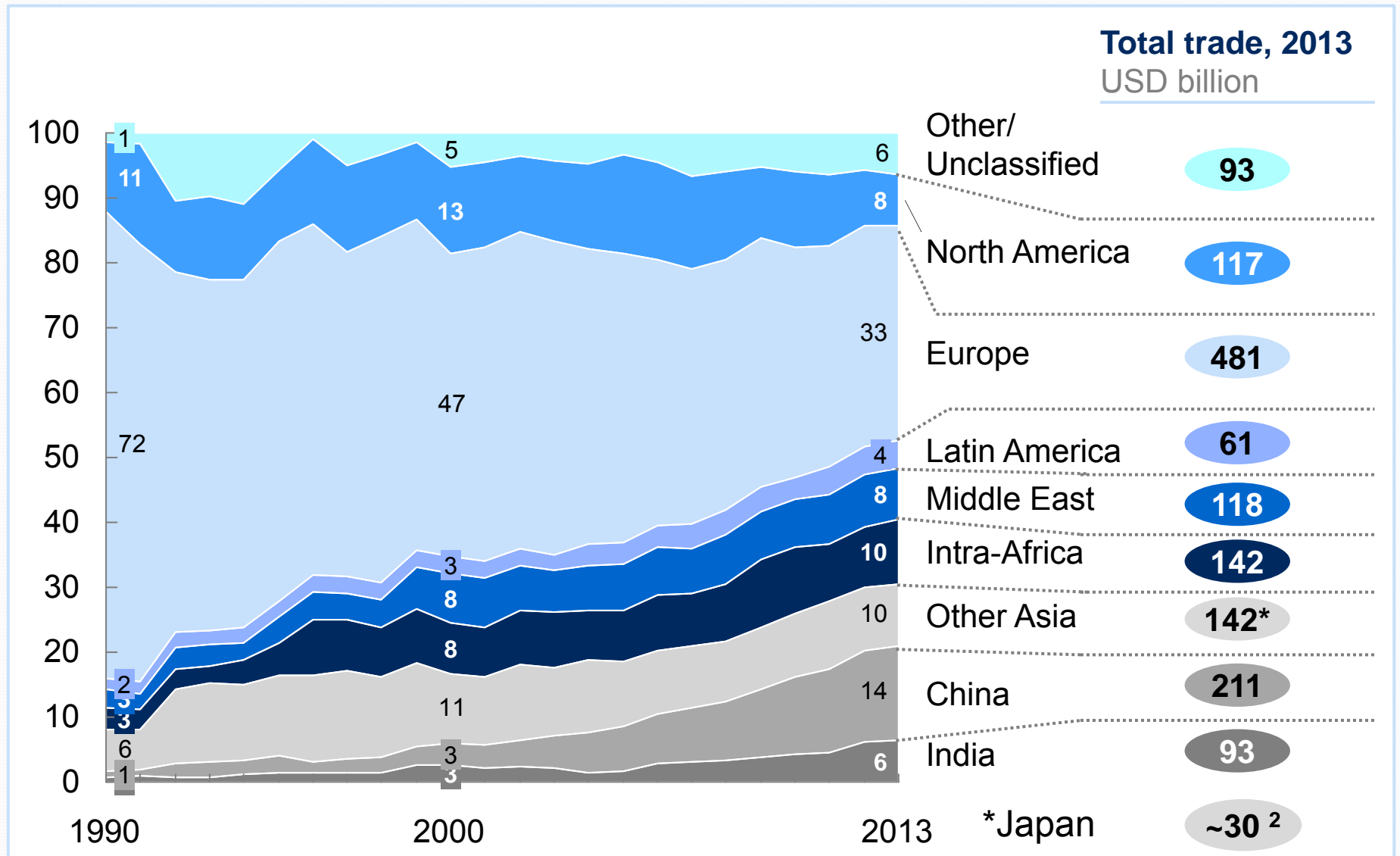


1 Calculated based on FDI greenfield and M&A activity (both announced and existing investments); Excludes alliances, partnerships, privatization and SWF investments. 2 Rest of world. SOURCE: FDI Markets; Dealogic; press search; expert interviews; McKinsey analysis

Slide adapted from McKinsey Presentation: "Joining hands to unlock Africa's potential", March 2014

# Composition of African trade by trading partner

Per cent<sup>1</sup>



<sup>1</sup> 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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# Indian companies with African Footprint

## Agriculture



## Manufacturing



## Consumer Brands



## Communication/ IT



## Pharmaceuticals



SOURCE: Company websites

Slide adapted from McKinsey Presentation: "Joining hands to unlock Africa's potential". March 2014

# Indian companies with African Footprint



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## Infrastructure/ Construction



## Financial services



## Resources



SOURCE: Company websites

Slide adapted from McKinsey Presentation: "Joining hands to unlock Africa's potential". March 2014



# Oil Jetty for Mauritius Port Authority



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# Rock Phosphate Terminal at Aqaba, Jordan



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# Road Projects



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# World's Tallest Rail Bridge – J&K, India



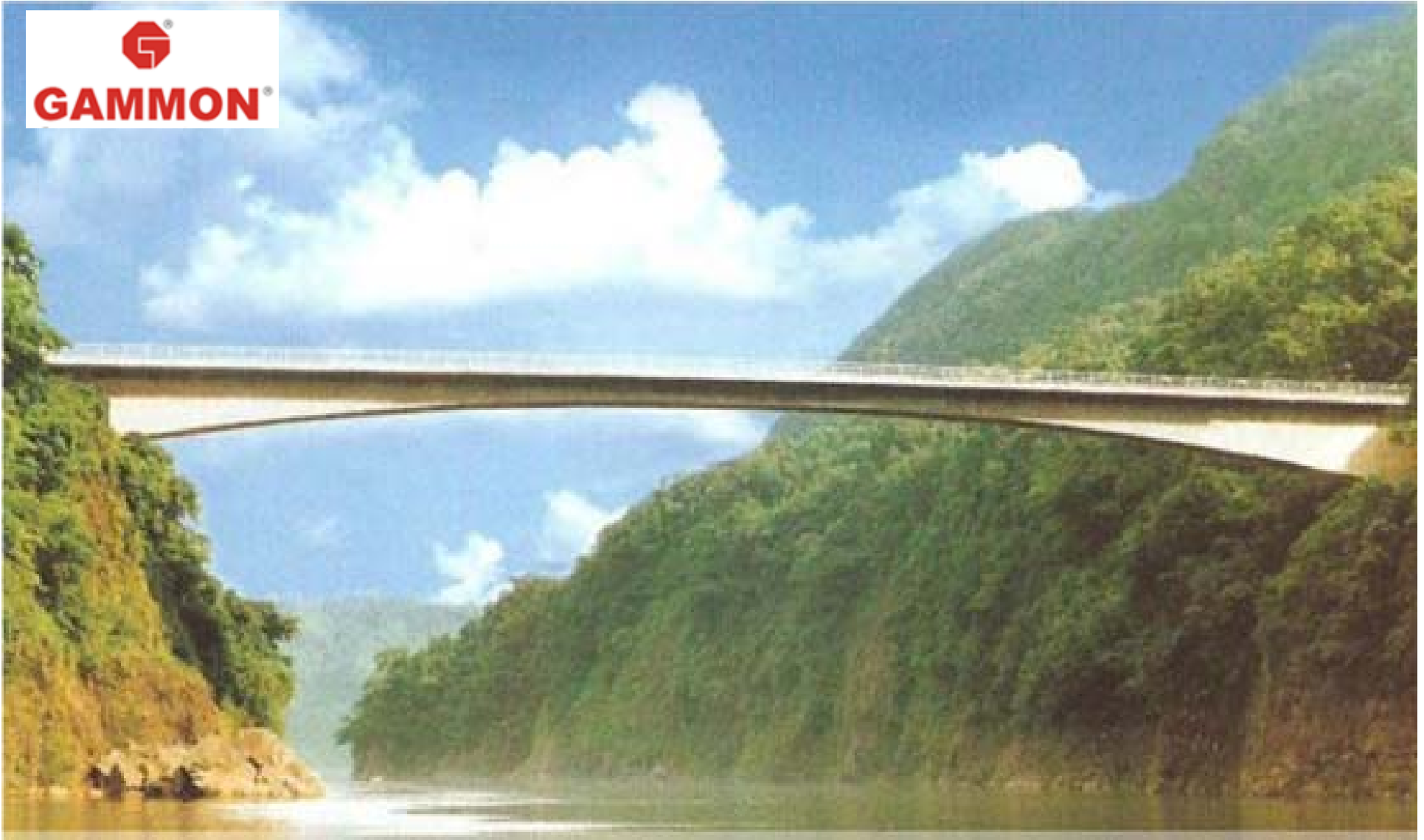
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# Longest Span Cantilever Bridge – Meghalaya, India



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# Industrial Installations



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# Iconic Buildings - Seat of Government, Ghana



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# India's possible aspiration for Africa

All figures in USD

		2013	2025
<b>India's import from Africa</b>		43 bn	300 bn
<b>Revenues<sup>1</sup> for Indian companies from Africa</b>	<b>India's exports to Africa</b>	27 bn	130 bn
	<b>High potential sectors</b>		
	IT services	1–2 bn	7 bn
	Consumer goods <sup>2</sup>	<1 bn	17 bn
	Infrastructure	<1 bn	25 bn
	Agriculture (and allied)	<1 bn	5 bn
	<b>Overall<sup>3</sup></b>	35 bn	160 bn
		2003–2013	2013–2025
<b>India's FDI in Africa</b>		60 bn	100 bn

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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## 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.

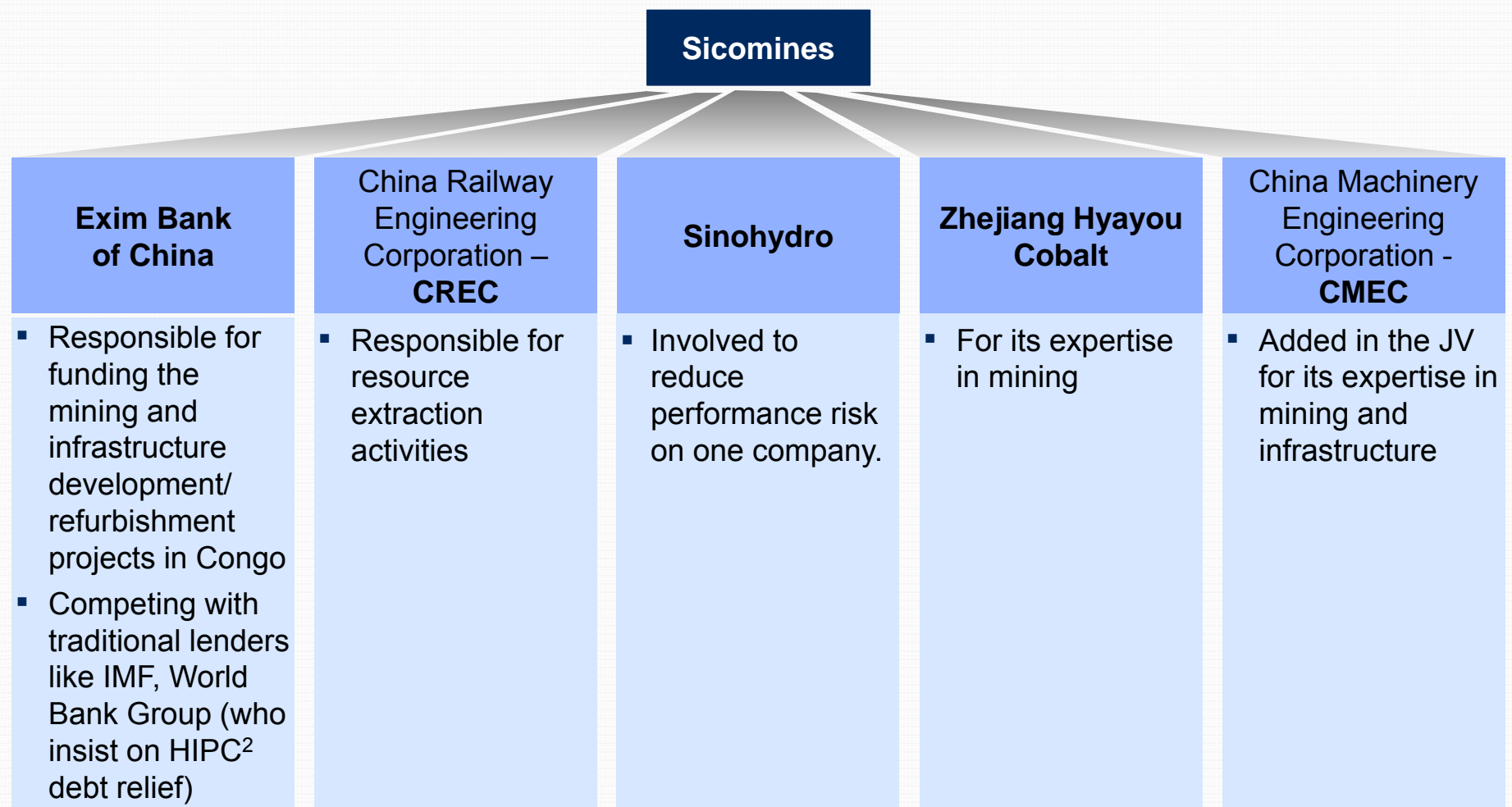
### Major stakeholders identified

West Africa	East Africa	Central Africa	Southern Africa	North Africa
<ul style="list-style-type: none"> <li>• EU/ US – 50%</li> <li>• Africa<sup>1</sup> – 20%</li> <li>• China – 11%</li> <li>• Brazil – 1%</li> </ul>	<ul style="list-style-type: none"> <li>• EU/ US – 37%</li> <li>• Africa<sup>1</sup> – 13%</li> <li>• China – 19%</li> <li>• Brazil – 2%</li> <li>• India – 1%</li> </ul>	<ul style="list-style-type: none"> <li>• EU/ US – 29%</li> <li>• Africa<sup>1</sup> – 41%</li> <li>• China – 12%</li> </ul>	<ul style="list-style-type: none"> <li>• EU/ US – 28%</li> <li>• Africa<sup>1</sup> – 20%</li> <li>• China – 8%</li> <li>• Brazil – 3 %</li> </ul>	<ul style="list-style-type: none"> <li>• EU/ US – 59%</li> <li>• Africa<sup>1</sup> – 19%</li> <li>• China – 4%</li> </ul>

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

## China's consortium approach seen in Sicominex

**Sicomines – A barter arrangement (JV) between DRC<sup>1</sup> and China, where China is allotted mines in return for infrastructure development (roads, hospitals, etc.)**



1 Democratic Republic of Congo , 2 Heavily Indebted Poor Countries; SOURCE: Working paper (2013) by South African Institute of International Affairs; press search

## Example: Participation in early stage studies to identify new opportunities

### France & Africa

- 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

**USD 5 bn**

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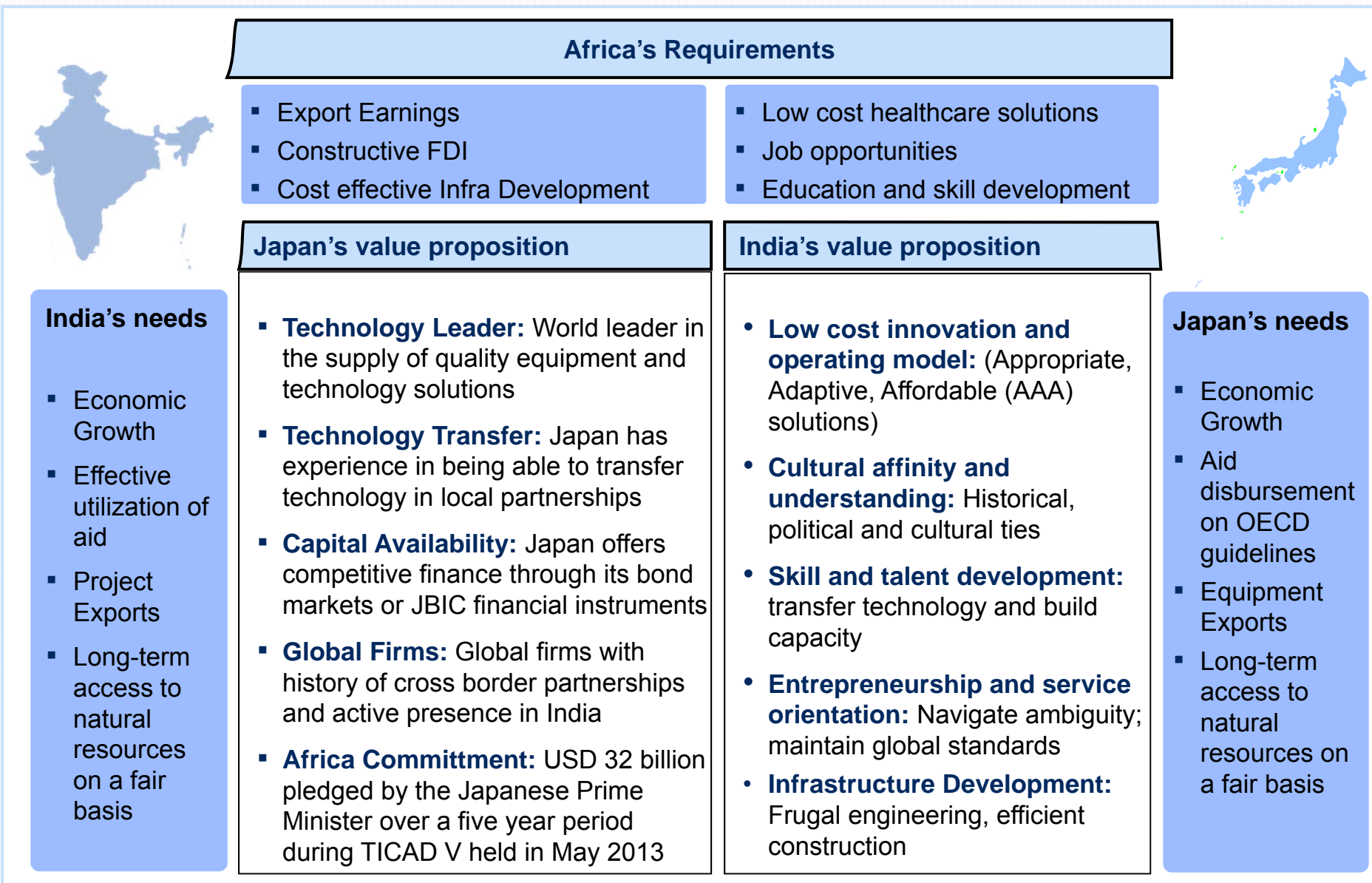
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# India-Japan-Africa: Win-Win-Win Partnership





# Example: Japan-India Collaboration to develop Africa's power sector

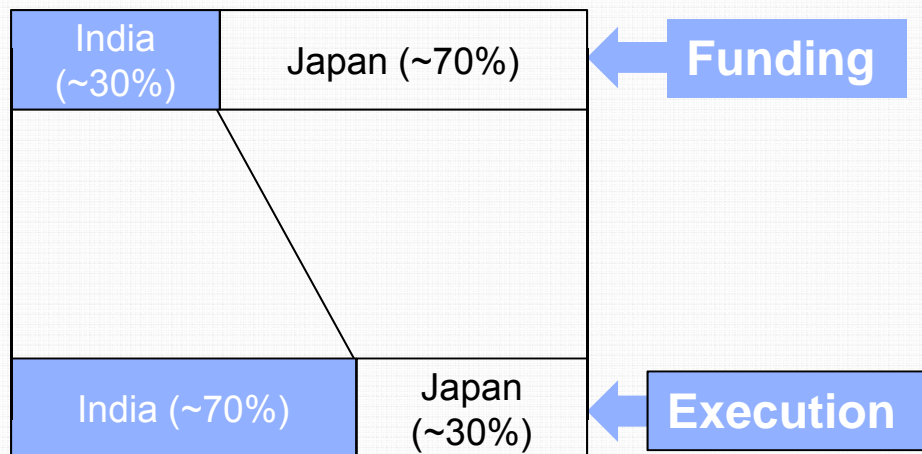
Leverage the strengths...		...while managing the risks through best practices	
<b>Utilize India's talent</b>	<ul style="list-style-type: none"><li>Bring in Indian managerial and technical talent for design, training, and execution management</li><li>Empower and transfer skills to local talent in Africa</li></ul>	<b>Provide a holistic solution</b>	<ul style="list-style-type: none"><li>Bid as a consortium for new projects to provide an end-to-end solution</li><li>Have control across the value chain, either on your own or through partnerships</li></ul>
<b>Capital + Expertise</b>	<ul style="list-style-type: none"><li>Get involved in early discussions on projects – fund very early stage studies</li><li>Ensure fast commissioning of projects with low gestation period</li><li>Tie-up with BTG<sup>2</sup> manufacturers at an early stage to ensure easy, low cost access to equipments</li></ul>	<b>Ensure project viability</b>	<ul style="list-style-type: none"><li>Focus on countries where consumer pays “cost reflective pricing” rather than relying on government subsidy</li><li>Sign PPA<sup>1</sup> with credible “distribution company” for demand guarantee and lower cost of borrowed capital</li><li>Bid for solicited PPAs where many demand side issues have been sorted out</li></ul>
		<b>Secure low-cost funding</b>	<ul style="list-style-type: none"><li>Secure funding from JICA, JBIC, Government of India</li></ul>
		<b>Be a responsible alliance</b>	<ul style="list-style-type: none"><li>Proactively invest in CSR activities in the project area at an early stage of the project</li><li>Follow ethical business practices while dealing with government</li><li>Sell Indian-Japanese solutions as being more “fit-for-purpose” and “maintainable” in the long term compared to other countries</li></ul>

1 Power Purchase Agreement

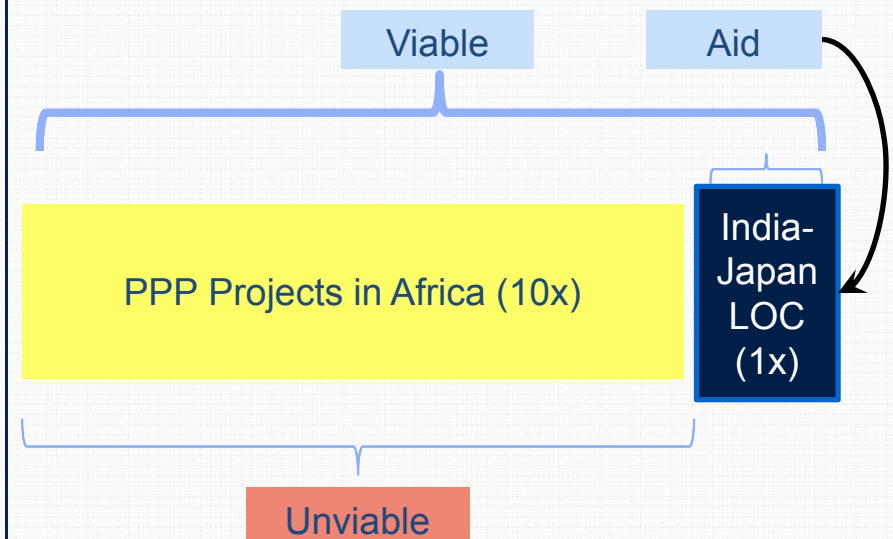
2 Boiler, Turbine, Generator

# Possible Structure of an India-Japan alliance

A representative funding-execution arrangement between India and Japan is shown below



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







## Creating a pool of funds for Infrastructure in Africa

### Debt

- **Buyers Credit** from EXIM Bank of India and JBIC for projects executed jointly by India and Japan in Africa
- Explore possibility for partial guarantees from JBIC to EXIM Bank for raising **Samurai bonds of longer maturity (> 5 Years)** for funding projects to be jointly executed in Africa

### Equity

- **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



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## Project

## Details

### 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

### Ghana Highway Authority Projects

- 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
  2. Construction of Enchi – Juabeso – Benchema: Goaso: \$ 358 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
  7. Upgrade + Asphaltic concrete overlay of Wa – Nadowli – Nadom – Hamile: \$ 135 million

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# An India - Japan alliance can unlock value in Africa



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## 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



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## 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



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## 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.



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# Thank You

