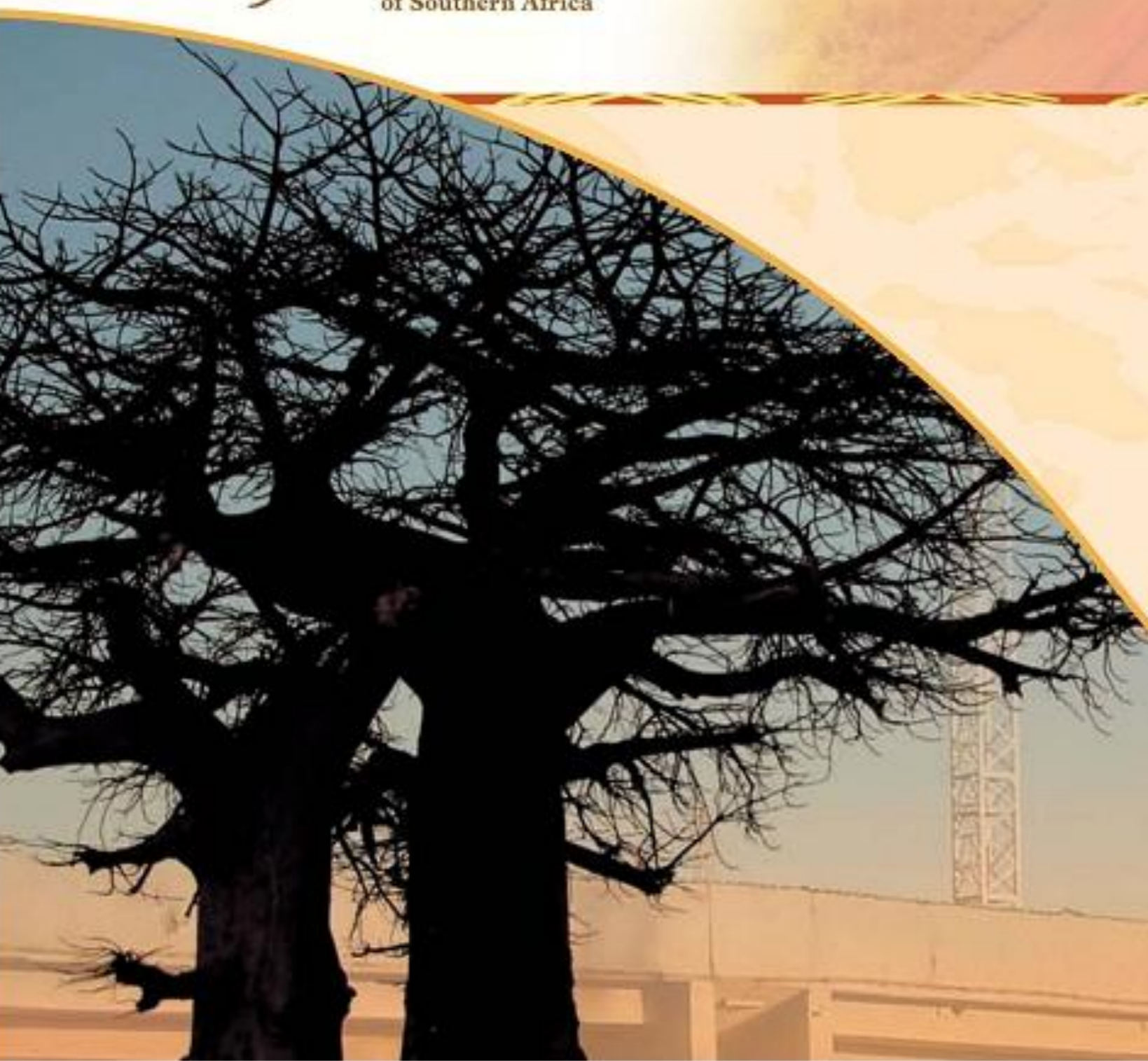




Development Bank
of Southern Africa



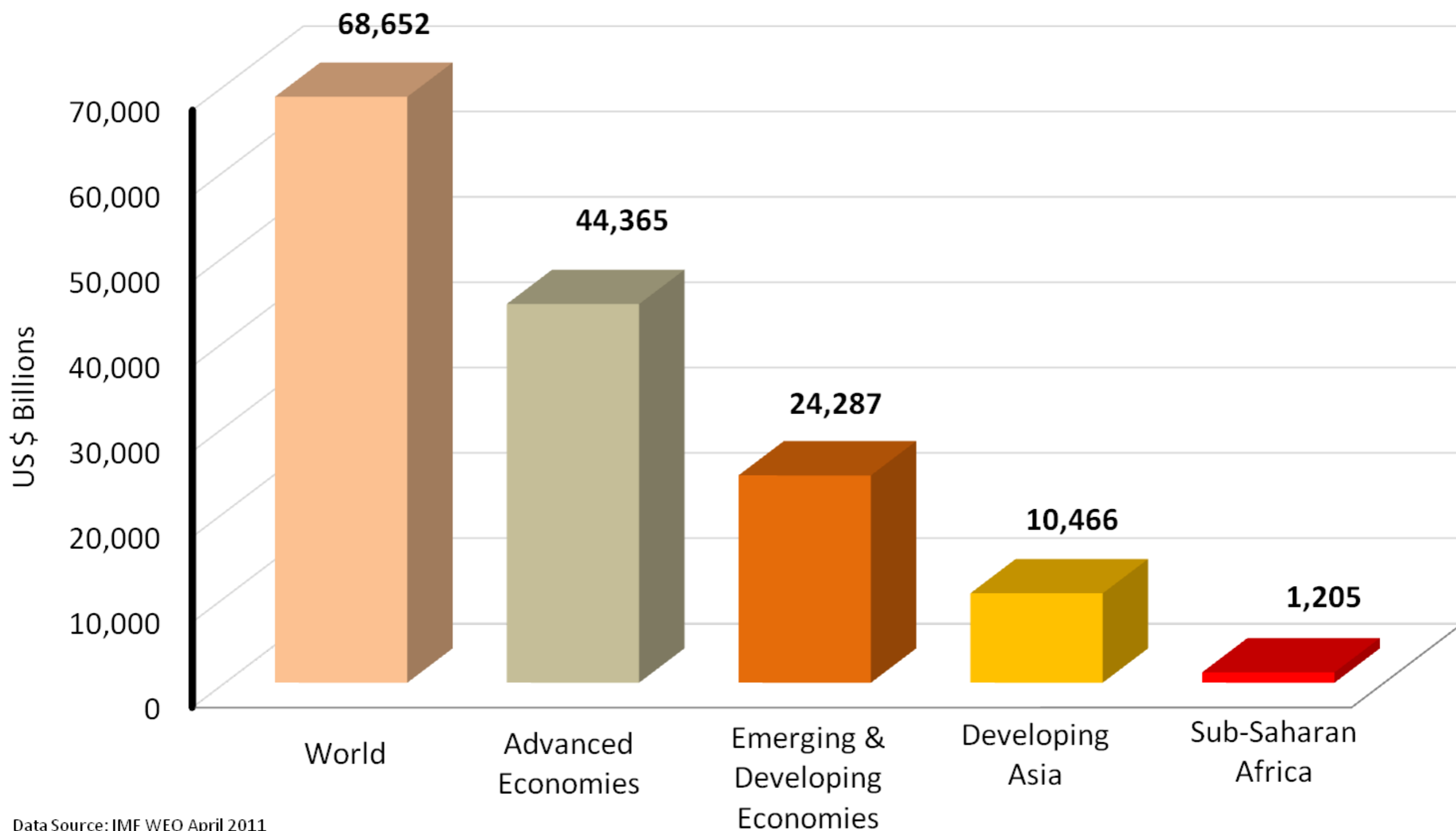
SAIIA
9 June 2011

Paul Baloyi
Development Bank of Southern Africa
June 2011

Africa's economy is small in output terms

World GDP 2011 - Key Country Groups

IMF Forecast - Billions US \$

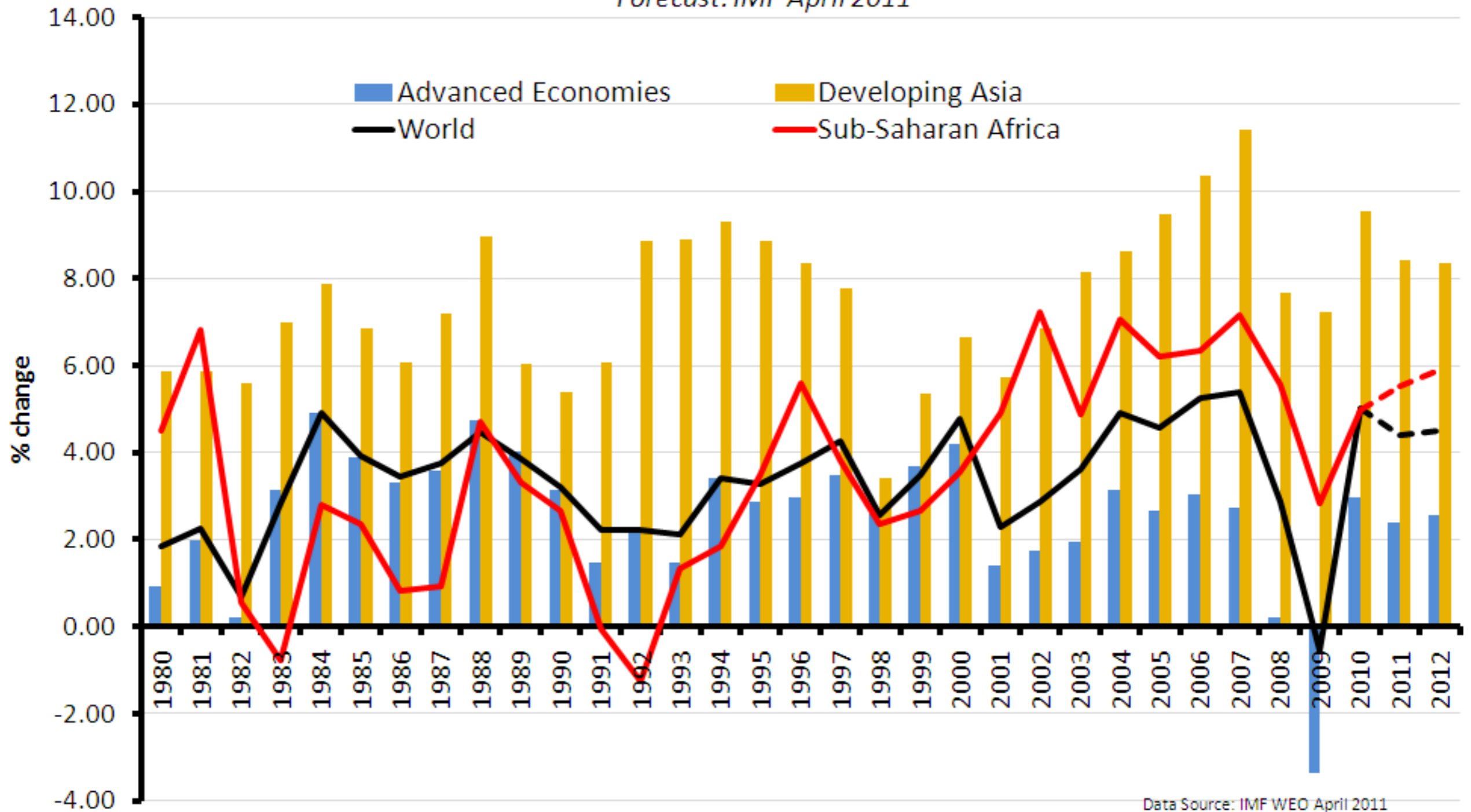


Africa's economic growth rate is above the world's average

Africa in a Global Context: Economic Growth Outlook

GDP at Constant Prices by Country Groups: annual % change

Forecast: IMF April 2011



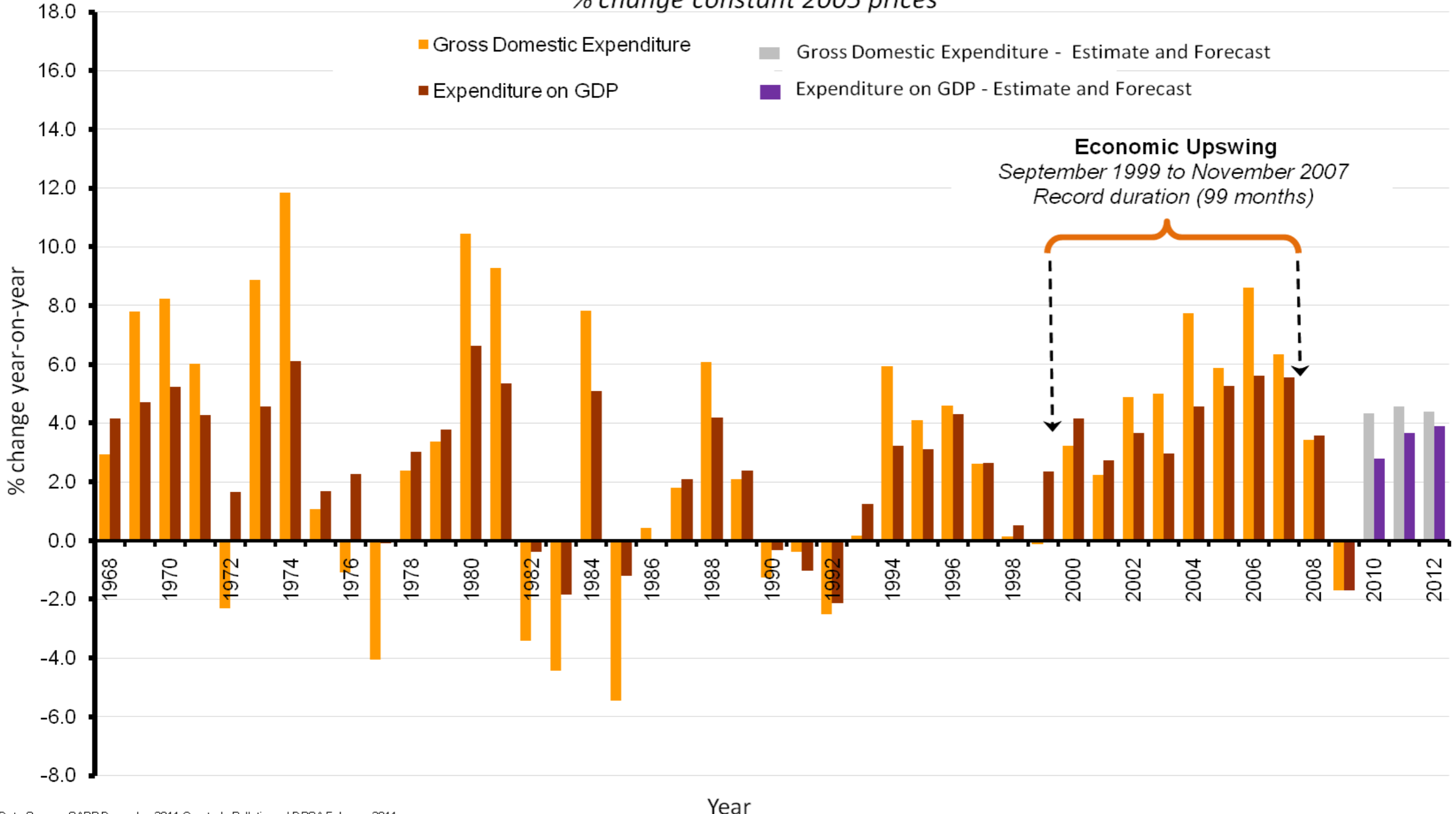
Data Source: IMF WEO April 2011

South Africa's economic outlook is for further recovery

.... But jobs, export growth and capex are however keys to sustained recovery ...

South Africa: Economic Growth - The Long View

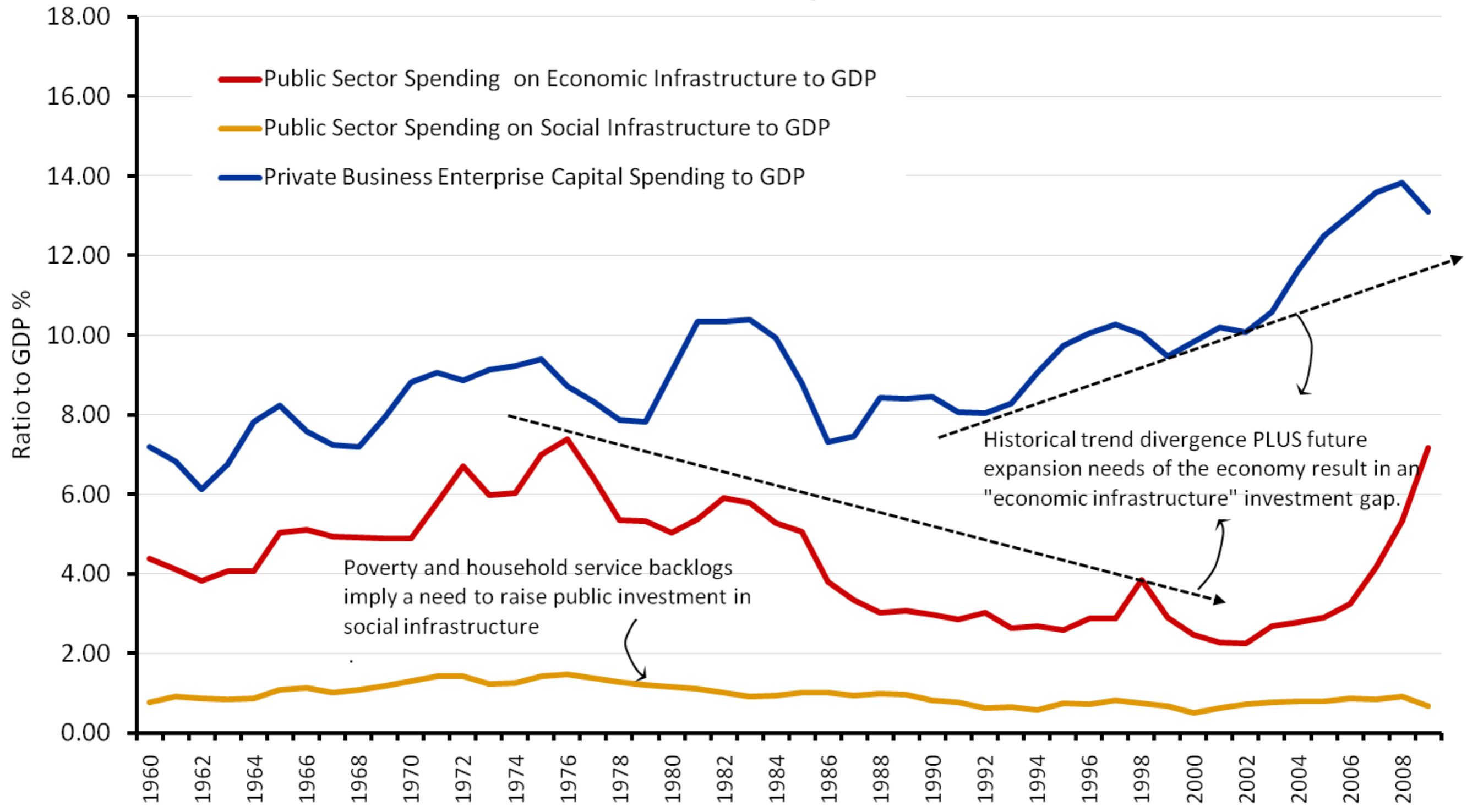
% change constant 2005 prices



Data Source: SARB December 2011 Quarterly Bulletin and DBSA February 2011

South Africa: A public infrastructure and utility investment gap

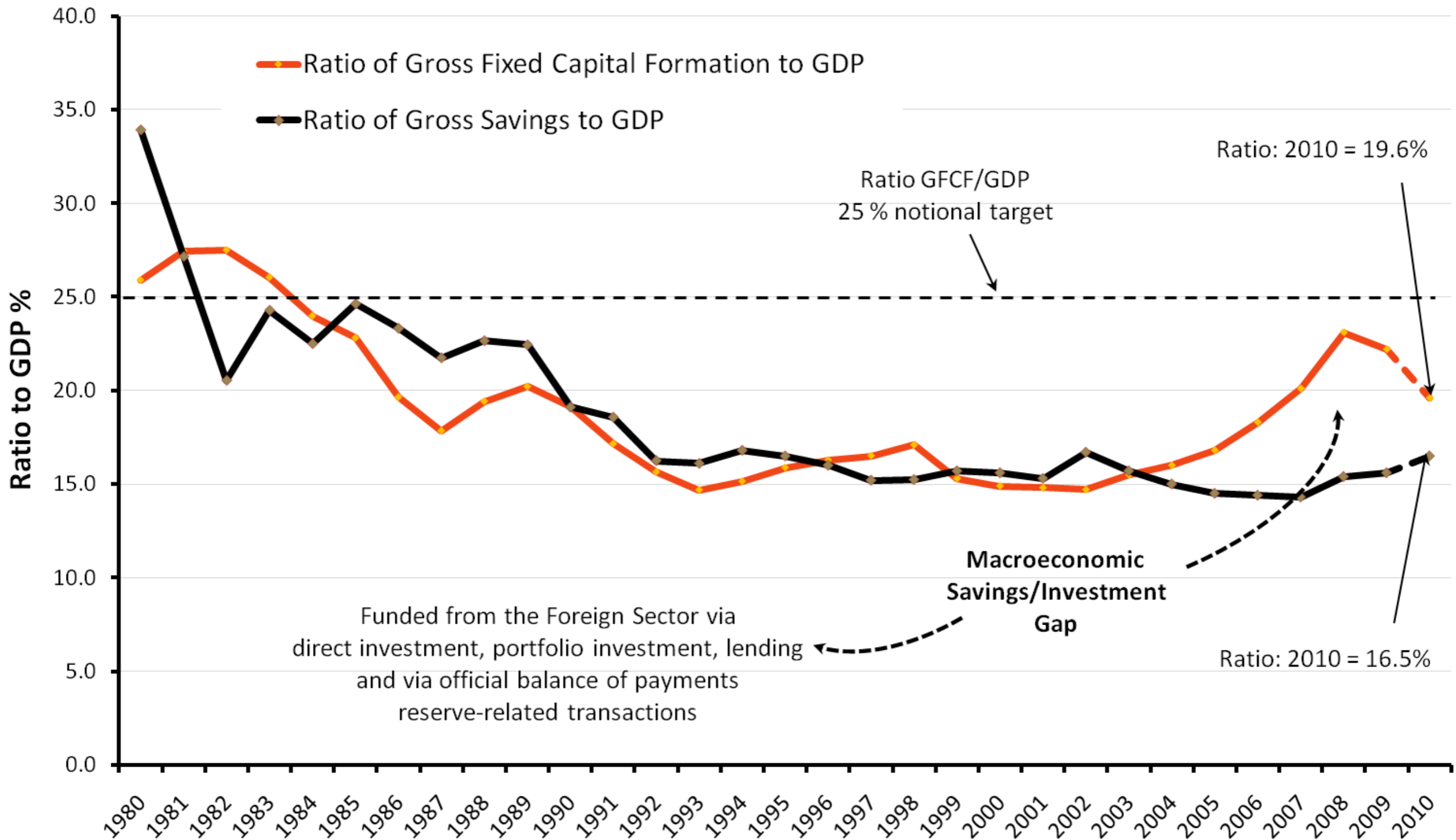
South Africa: Origins of the Public Sector Fixed Investment Challenge



Basic Data Source: SARB September 2010

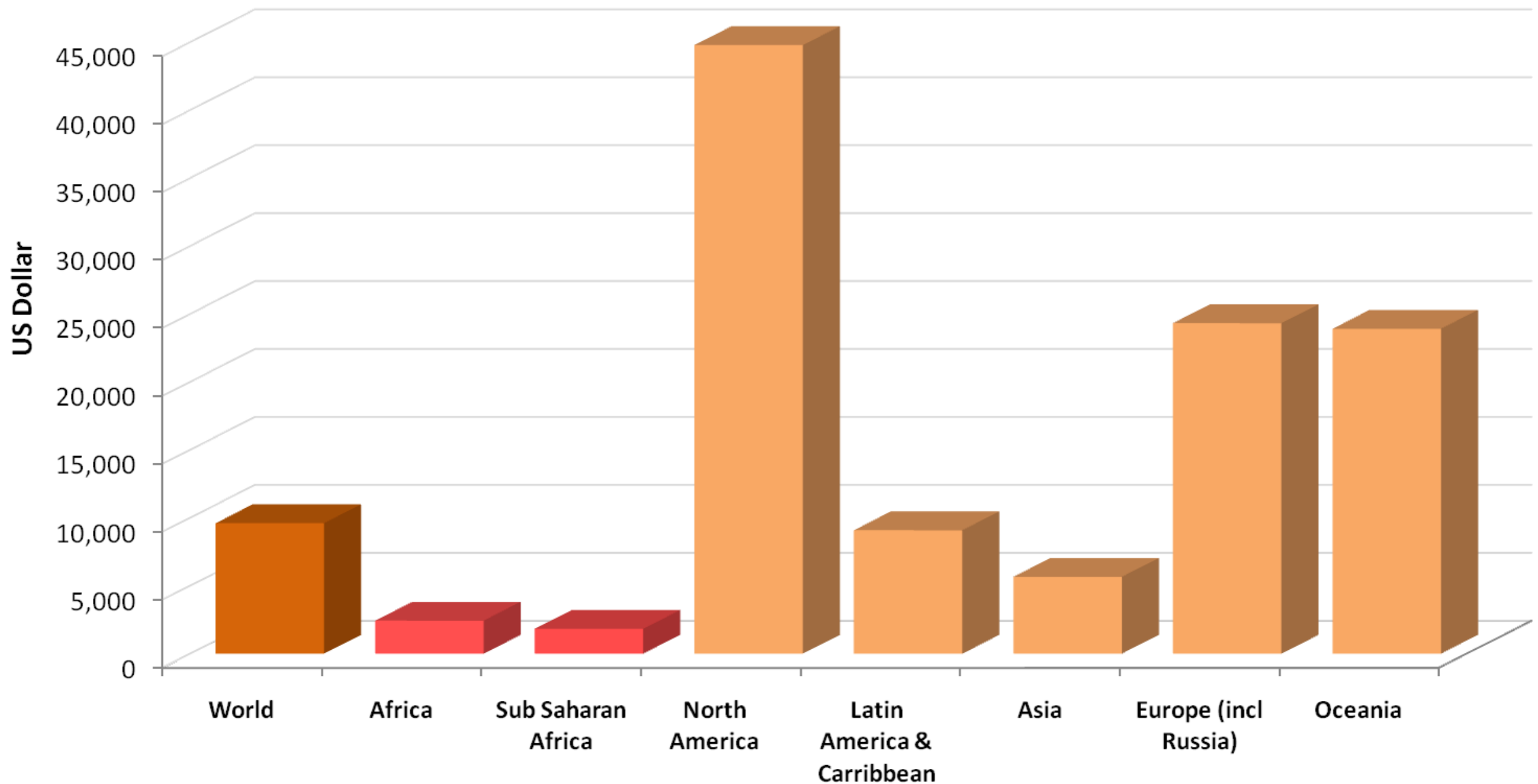
Source of the Capex financing challenge: Inadequate domestic savings relative to fixed investment needs

South Africa: The Fixed Investment Financing Challenge - Origins



Incomes are low in global comparative terms ...

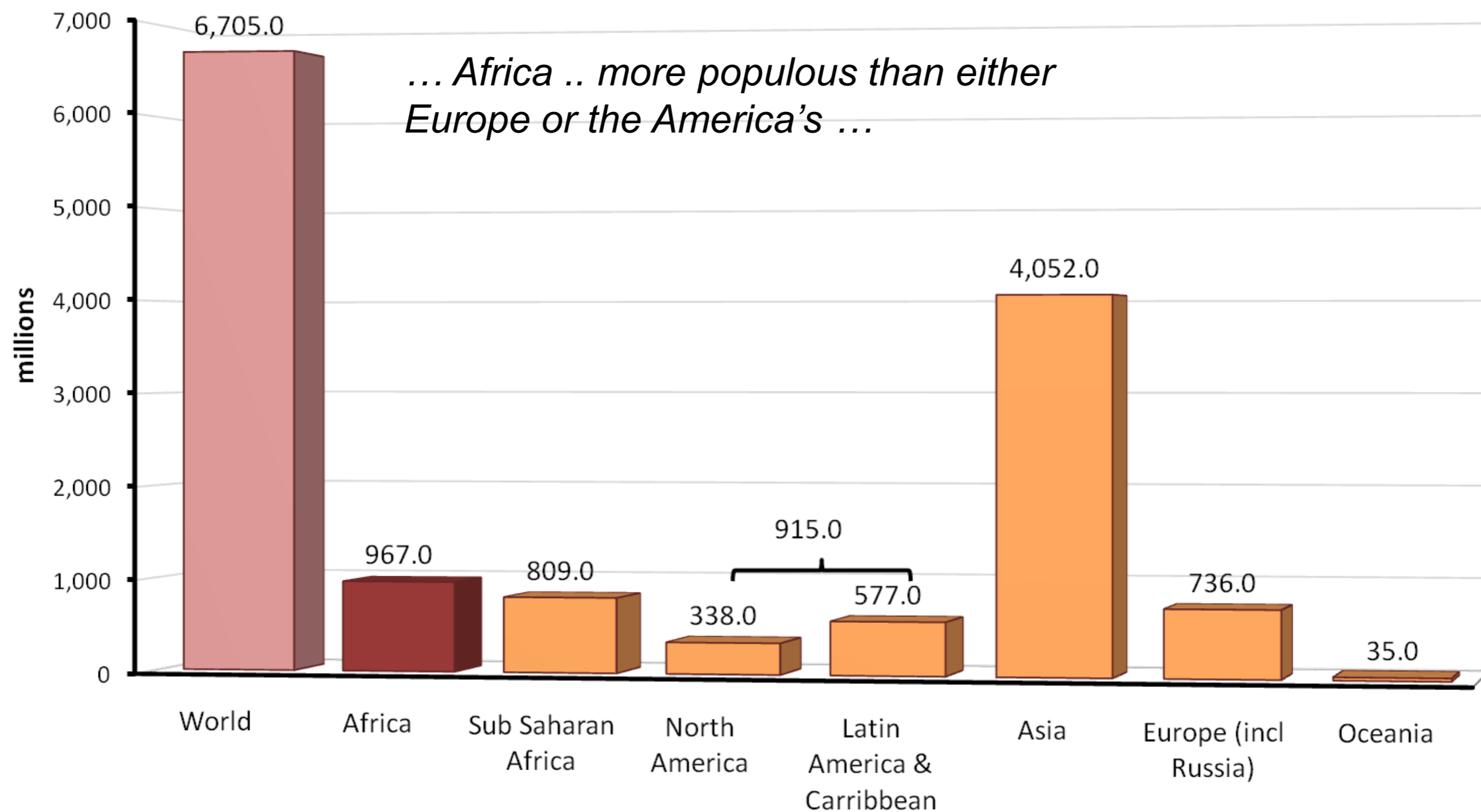
Africa's Economy in Global Context: Per Capita Gross National Income (PPP basis) 2007 US\$



Africa's large population means market potential ...

Africa's Population in Global Context

Millions of people - Mid 2008 Estimates



Africa's natural resources and markets have been drawing foreign direct investment ...

Factors Attracting FDI to a Region or Country (UNCTAD)

Percent of survey responses: top three factors (blue) - bottom three factors (red)

	Sub Saharan Africa	China	India	Brazil	Germany
Access to regional (or global) markets	13	13	12	17	13
Access to local capital markets (finance)	0	2	2	2	4
Access to natural resources	21	3	2	8	4
Availability of incentives	10	2	0	2	4
Availability of skills and expertise	2	5	10	4	16
Availability of suppliers	0	6	4	4	7
Cheap labour	8	14	15	8	0
Following competitors	6	4	4	2	4
Government effectiveness	8	3	3	4	13
Quality of infrastructure	6	4	3	4	16
Rate of growth of market	15	22	24	25	7
Size of market	10	22	22	22	13

Investment and lending performance begins to attract attention ...

... with return on assets often above average and lending fundamentals improving ...

Return on Assets and Non-Performing Loans: Selected Regions

	<i>Return on Assets %</i>	<i>Non-Performing Loans as % of Total Loans</i>		<i>NPL Trend</i>
	<i>2003 to 2007</i>	<i>2000 to 2002</i>	<i>2003 to 2007</i>	
Developed economies	0.8	2.9	1.9	
Africa	2.6	17.9	13.5	trend improving
Latin America	1.9	9.5	5.1	
Asia	1.4	17.4	9.9	
Sub-Saharan Africa (excl SA)	3.1	19.5	13.3	trend improving

Source: UNCTAD. Trade and Development Report 2008. Geneva. P112

Based on the IMF *Global Stability Report*, covering sample of 41 developing countries: 13 in Africa, 17 in Latin America and 11 in Asia.

However, accessing capital is an issue ... comparatively, in Africa, bank and equity funding of firms is weak ...

... more funding and better intermediation of finance needed ...

Sources of Investment Finance for Firms

origin of finance - percent of total

	<i>firm size</i>	Africa		Asia		Developed Countries	
		<i>small</i>	<i>large</i>	<i>small</i>	<i>large</i>	<i>small</i>	<i>large</i>
Internal funds and retained earnings		77.8	63.4	53.4	46.4	63.2	50
Local and foreign-owned commercial banks		8.9	24.3	14.4	25.9	18.1	25.5
Investment and State funds (incl DFI's)		1.1	2.0	2.1	2.8	0.3	1.5
Trade credit		2.4	2.3	2.5	3.1	2.7	3.4
Equity		0.8	1.1	11.4	8.0	3.2	5.0
Family and friends		4.3	0.8	8.3	5.0	1.7	0.5
Other		4.8	6.1	7.8	8.8	10.9	14.2

Source: UNCTAD Trade and Development Report 2008. Geneva p120

Why Africa is favourably positioned

... Africa's mineral resource strength ...

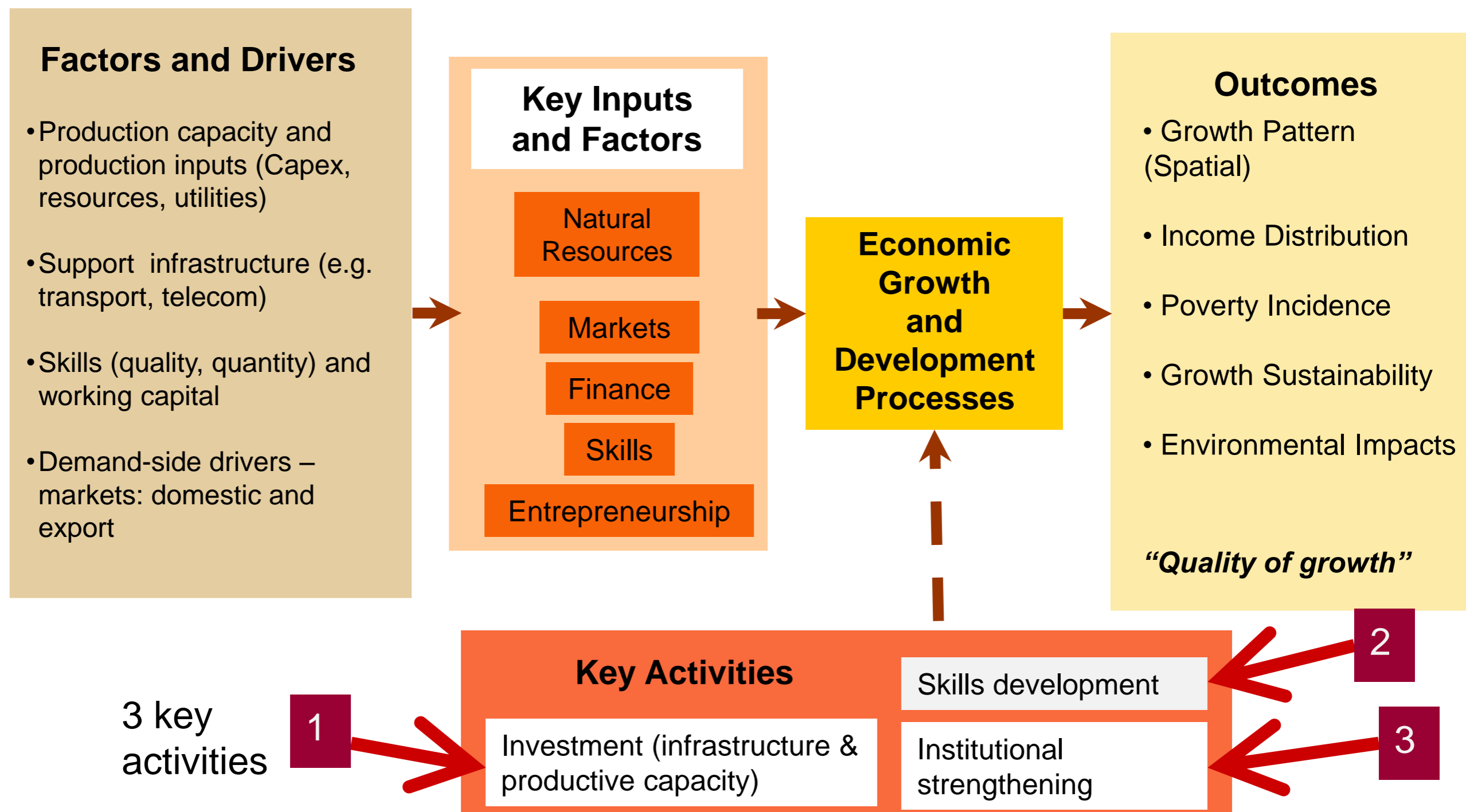
AFRICA'S RESOURCE BASE: SELECTED MINERALS

	PRODUCTION		RESERVES	
	% of Global	Rank	% of Global	Rank
Platinum	78%	1	88%	1
Gold	18%	1	55+%	1
Chrome	51%	1	95%	1
Manganese	28%	2	82%	1
Vanadium	40%	1	44%	1
Cobalt	18%	1	42%	1
Diamonds	54%	1	60+%	1

Source: Special Report on Mining in Africa. MSA group

What is required to realise the opportunity ?

... Africa needs better infrastructure, more skills, effective government institutions, efficient productive capacity, and, access to markets for the goods and services it produces ...



Complexity of the funding side: Diverse players, motives instruments and conditions ...

Bilateral Funders

Country Governments

Bilateral development banks

Sectoral Funds & Agencies

Specialised UN Agencies

Global Environment Facility

NGO's

International Donors

National Donors

Private Philanthropy

Private Sector Finance

Commercial banks

Firms

Institutional Investors

Private Investors

Multilateral Funders

World Bank

IMF

UNDP

Regional Development Banks and Agencies

... donors, financiers and investors - different motives, funding instruments, terms and conditions

... matching opportunities and needs with funder agendas, objectives and conditionalities is a challenge ...

Overcoming the complexity of the funding landscape ...

Funding-Side

Multiplicity of donor funders, investors and financiers

- Diverse funder/ financier purpose, interests and constraints.
- Diverse funder / financier requirements in terms of financing focus, funding conditionalities, risk profile and expected returns

Need for Alignment:

Funding Facilitation and

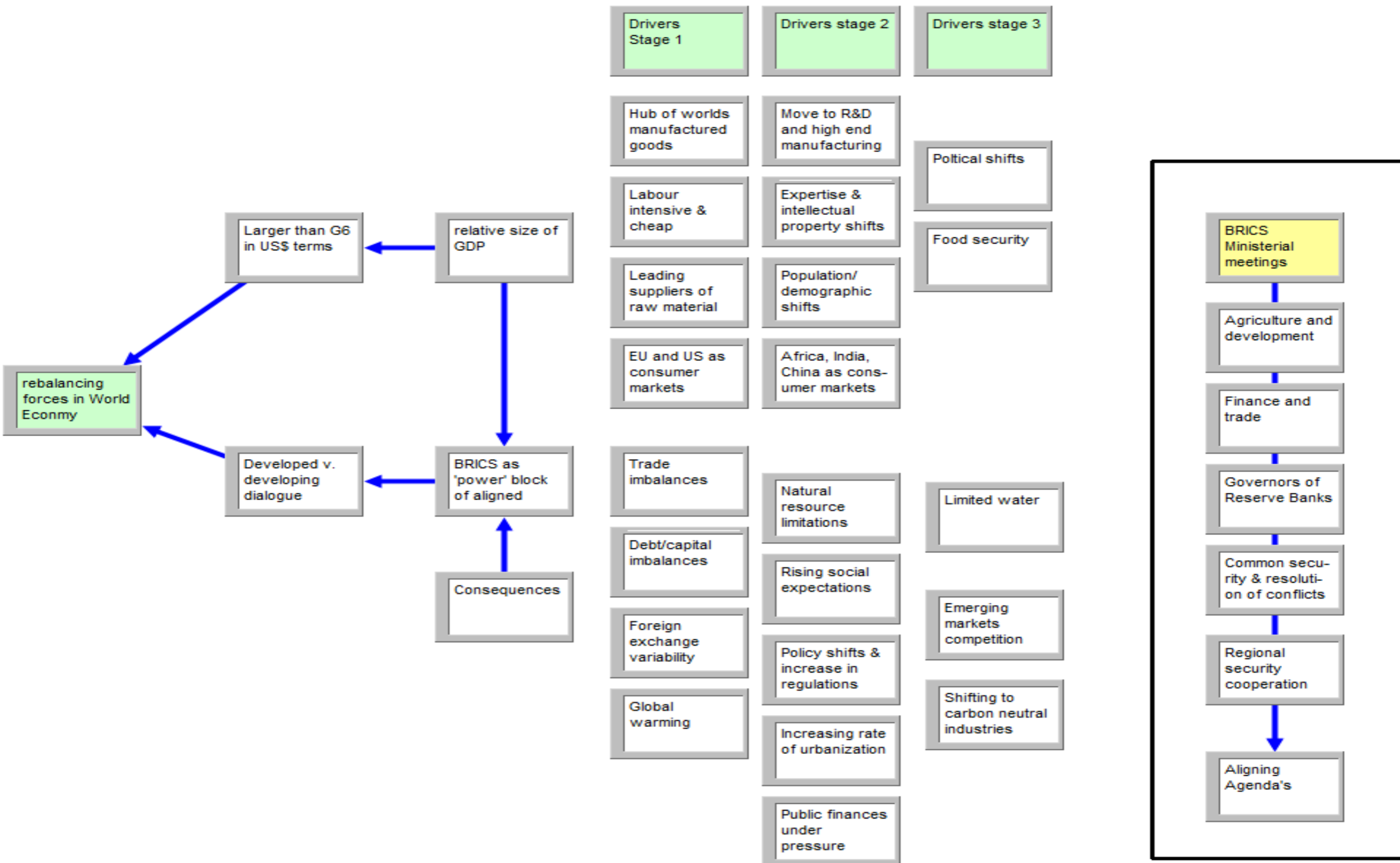
- Supporting planning & coordination of programme/projects
- Project preparation: Advising, coordinating and funding
- Matching funding (and conditionalities) with needs and opportunities
- Gathering and communicating information on opportunities

Application-Side

Diverse initiatives and projects of varying priority at various stages of readiness

- Cross-border initiatives and large multi-linkage projects are demanding in terms of planning and preparation before they are “investment ready”
- Poor technical capability for project preparation and inadequate funding to bring projects to “fundable” stage
- Poor information dissemination on investment opportunities

The Context to BRICS Agenda

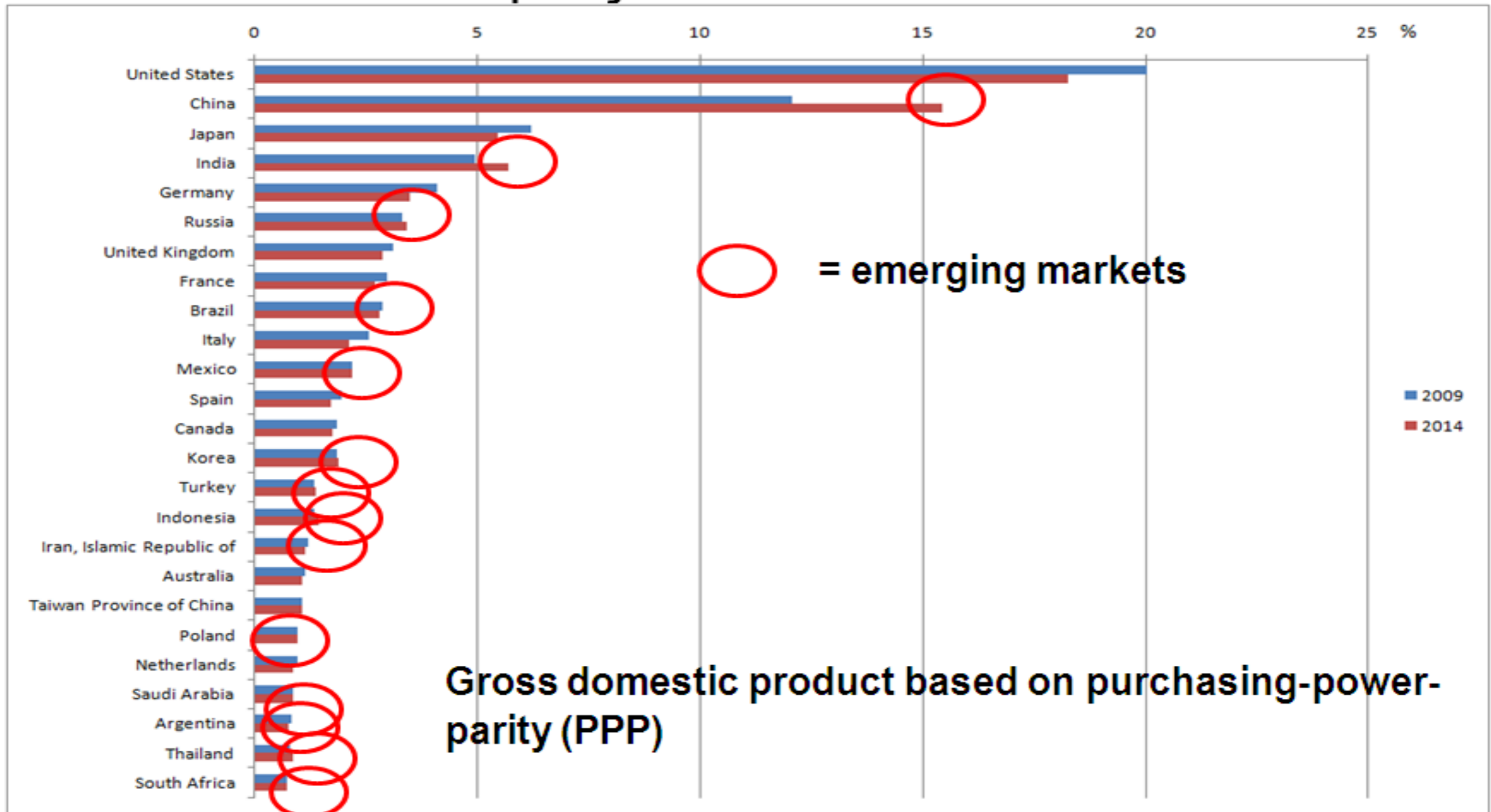


The Context to BRICS Agenda

- The consequences of these shifts are reflected in trade and currency imbalances
- China and India purport to shift economies from primary manufacturing to beneficiation and higher value outputs
- It is feasible that the economies of BRICS can exceed those of G 6 countries over the next 50 years (Goldman Sachs)
- The shift from West to East has been driven by Asia capacity to deliver lower cost manufacturing output
- The economic shift demonstrated by trade balances and relative strength of currencies can be followed by political shift
- The BRICS nations have a need for common Agenda - currently pursued through ministerial meetings

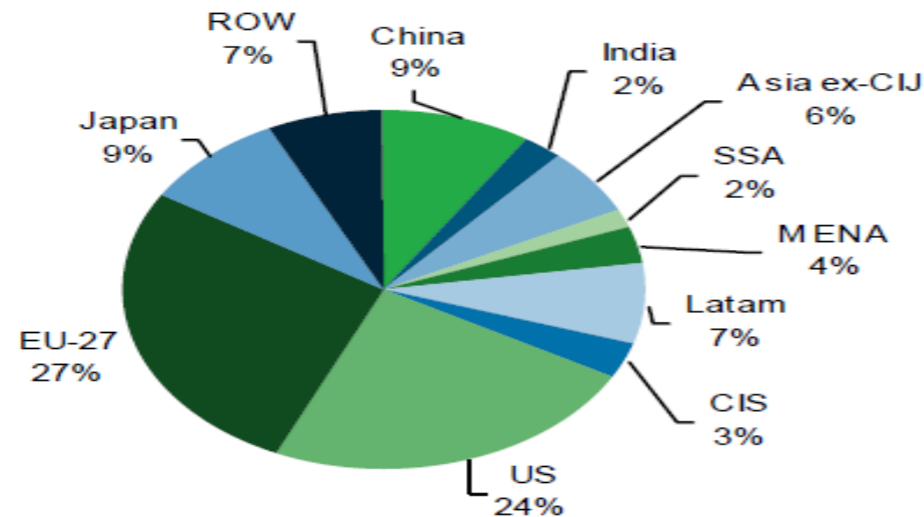
BoE forecast November 2009:

Top 25 countries share of global GDP 2009 and projected to 2014



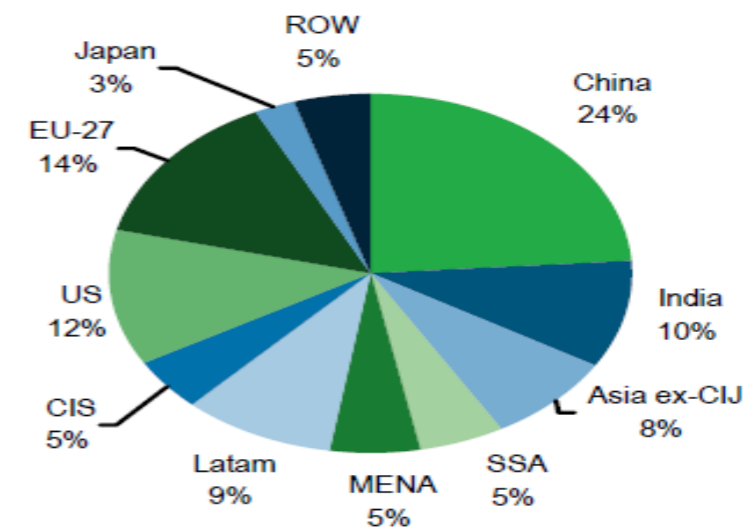
Scale

Chart 3: Nominal global GDP 2010, USD 62trn
% of global



Sources: IMF, Standard Chartered Research

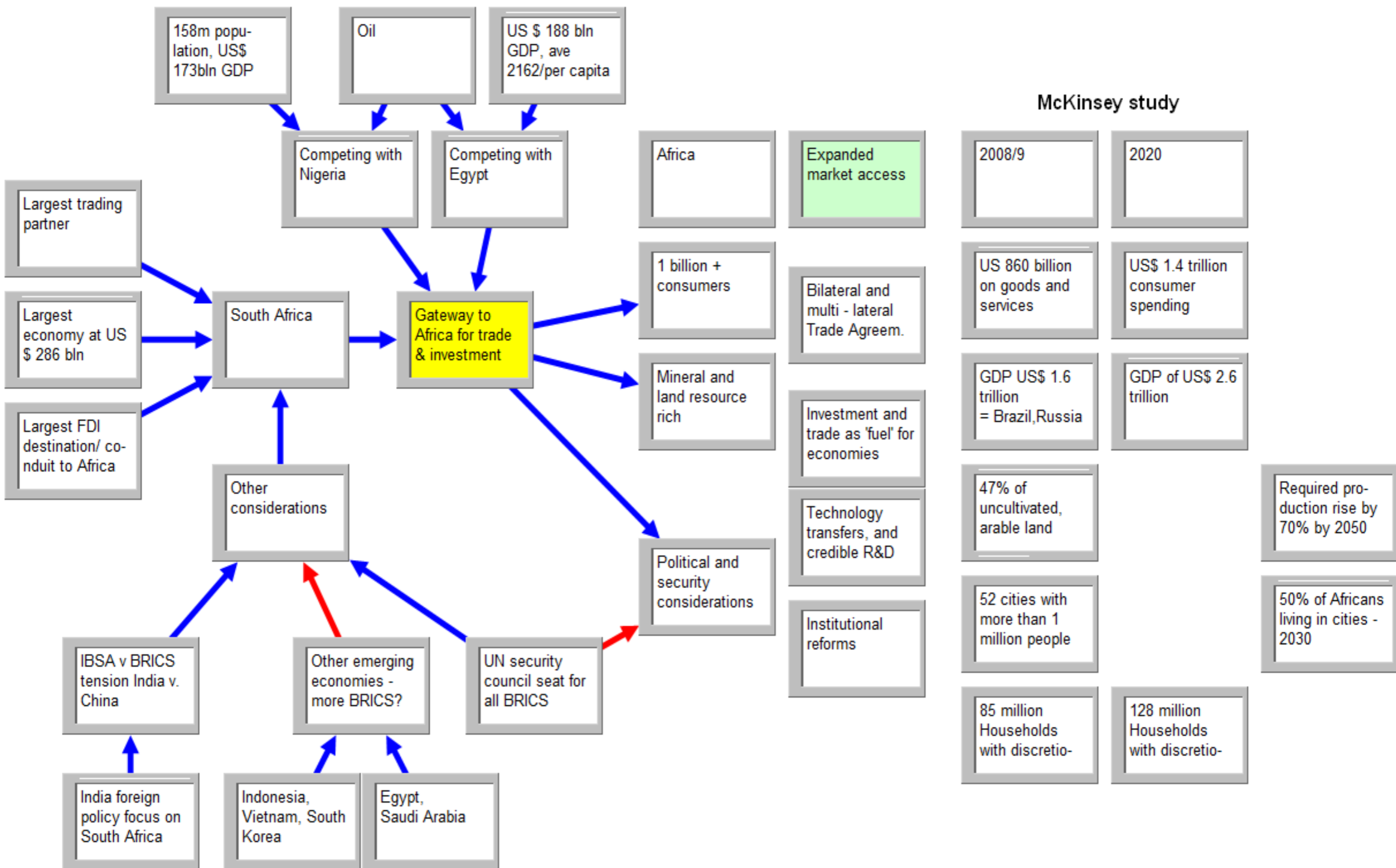
Chart 4: Nominal global GDP 2030, USD 308trn
% of global



Sources: IMF, Standard Chartered Research

- Driven by industrialization in India and China
- 85% of world population in emerging markets
- World urbanisation expected to rise from 50% to 60% by 2030 (c.1.5bn) people.
- Shift in Economic axis
 - In 2000, the US, EU and Japan made up 72% of world GDP
 - In 2030, expected to make up only 29% of world GDP
- Real GDP per capita narrows as poor countries grow strongly

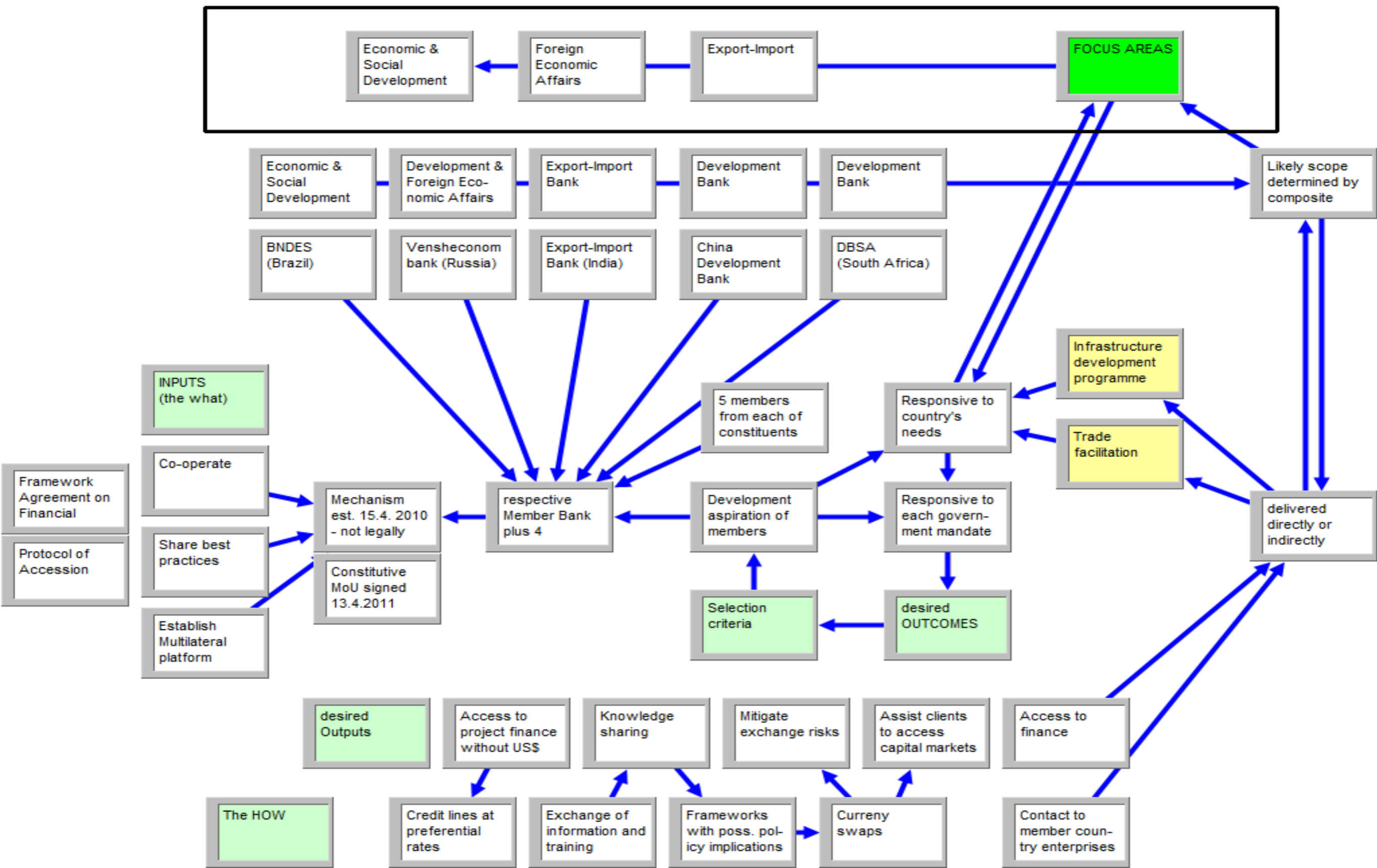
SA as Gateway for BRIC



SA as Gateway for BRIC

- In essence Brazil, Russia and Africa are resource suppliers to India and China
- While India and China may prefer raw materials BRIC would require increase in beneficiation in order to share in economic value to fund social upliftment
- Africa's potential in resources (both natural and potential for food), a billion + consumers is confirmed by attention & competition of BRIC nations (in addition to US and EU nations) for access
- Coordination and cooperation are key for Africa to be considered a 'power' in its own right
- Economic and social development would need to go hand-in-hand with foreign economic collaboration
- South Africa's aspirations to be the Gateway to Africa are supported by SA's current economic, social and political position in Africa
- This position is not uncontested – Egypt and Nigeria may be other aspirants
- US demonstrated in past that political power is economic power supported by military intervention

The Framework Agreement



DBSA as enabling Agent

