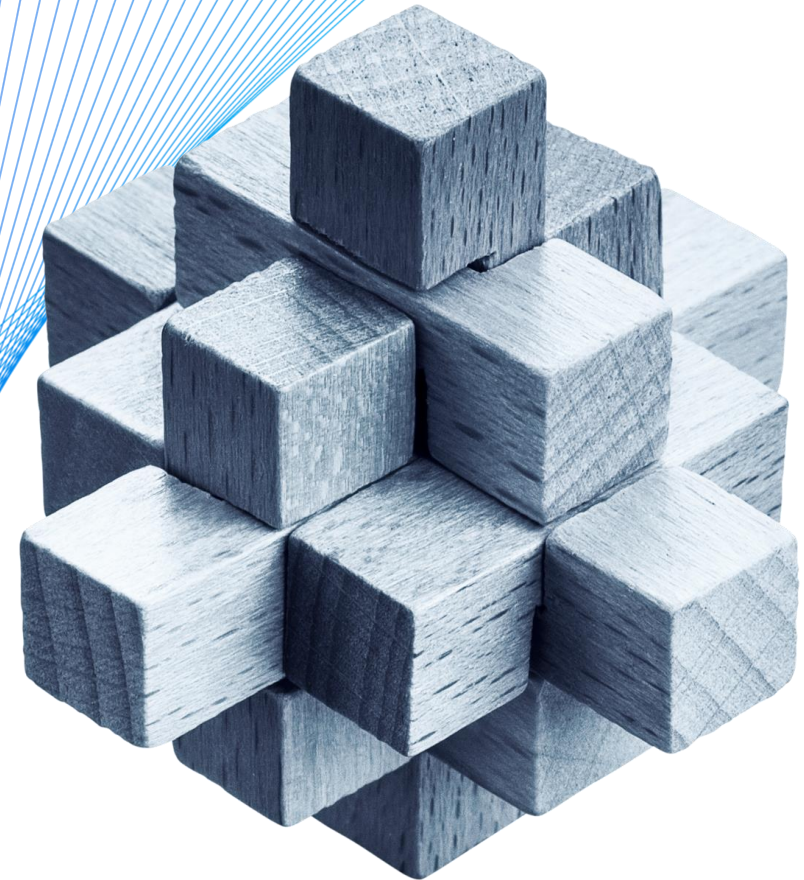


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# Accelerating Africa's Growth through Private Sector Investments and Public Fiscal Transformation

Africa Caucus meetings

Discussion document | 2 August 2019



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# Agenda



**Outperformers – High growth emerging economies and the companies that propel them**



From Africa beyond Aid to Africa beyond Debt –  
The \$100bn fiscal transformation opportunity



The role of the private sector – The imperative  
to grow more large African companies

# Eighteen emerging economies sustained growth rates that were higher than the advanced economies over long periods of time

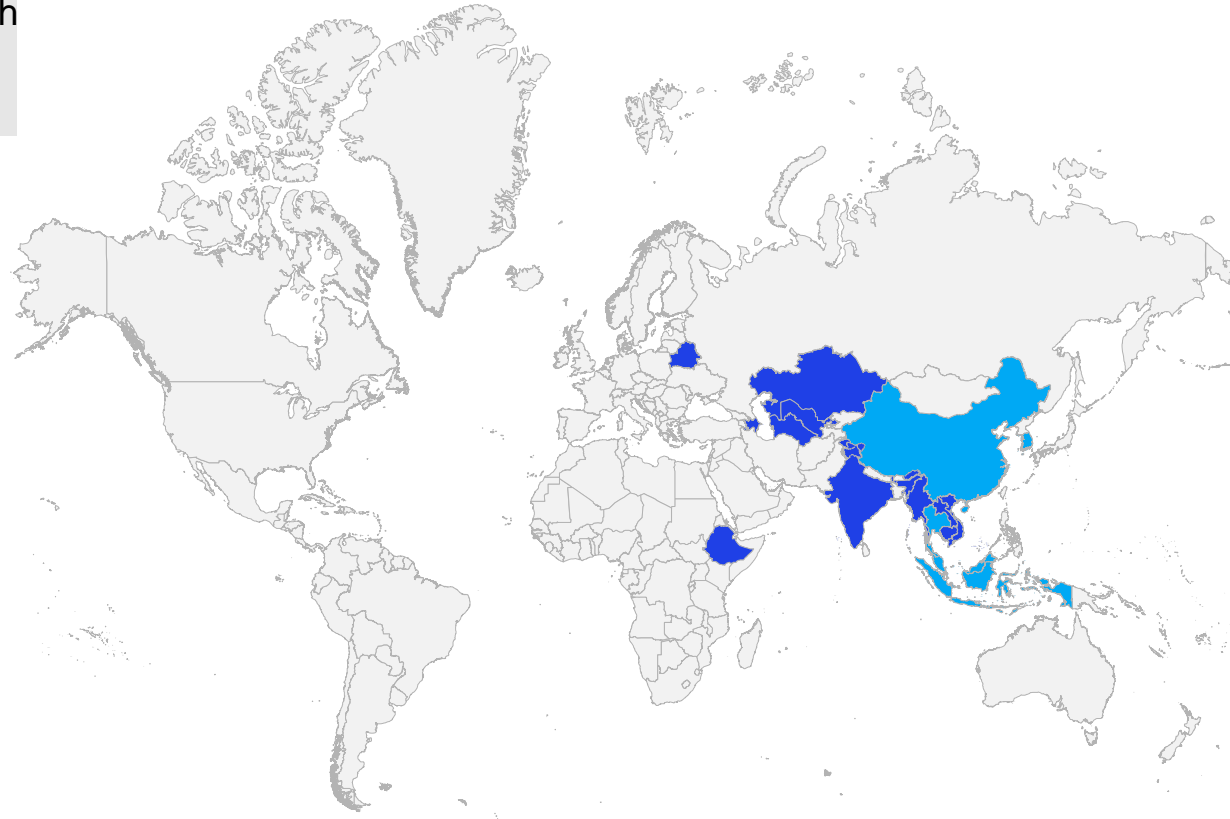
**18** Outperformers surpassed high-income economies growth rates of GDP per capita over long periods of time

**7** achieved **>3.5% p.a.** over 50 years

## Long-term outperformers

*Outpaced US growth consistently from 1965–2016*

China  
Hong Kong  
South Korea  
Singapore  
Malaysia  
Indonesia  
Thailand



**11** achieved **>5% p.a.** over 20 years

## Recent outperformers

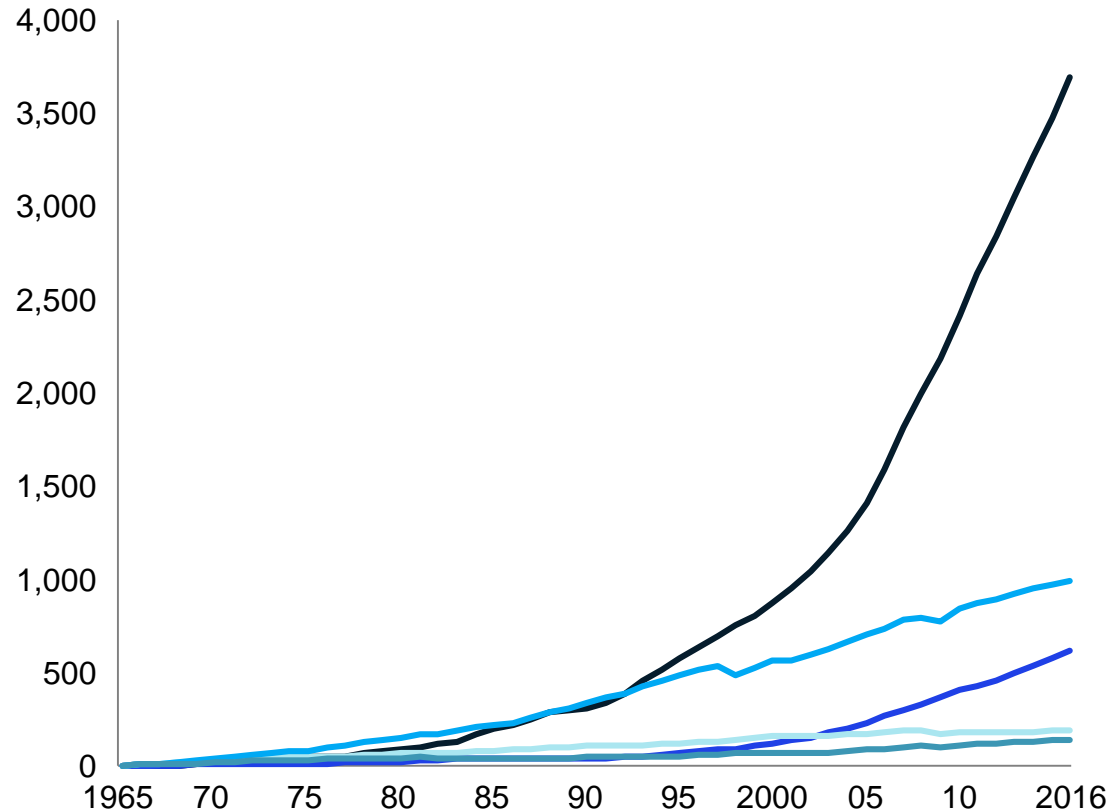
*Outpaced US growth consistently from 1996–2016*

India  
Vietnam  
Cambodia  
Laos  
Myanmar  
Azerbaijan  
Belarus  
Kazakhstan  
Turkmenistan  
Uzbekistan  
Ethiopia

# GDP per capita growth among outperforming economies has far exceeded that of other emerging economies

## GDP per capita

Index: 100 = 1965



CAGR,  
1965–2016

%

7.3

4.7

6.0

2.0

1.7

GDP  
2016

% share

13

5

4

59

16

Population,  
2016

% share

19

6

22

13

31

Archetype

China

Long-term outperformers (e.g. Indonesia, Malaysia)

Recent outperformers (e.g. India, Vietnam, Ethiopia)

High income

Other emerging economies

1. ('96-'16)

Source: McKinsey analysis

# A pro-growth agenda of productivity, income, and demand propelled the outperforming economies ...

## Higher productivity

- Promoting **competition**, investing in **infrastructure**, and leveraging **technology**
- Investments driven predominantly by **domestic savings** rather than foreign direct investment
- Investments led primarily by the **private sector** (except for China)



## Strong and inclusive income growth

- Productivity gains translated into **higher annual net income growth for large firms** (2-5pp higher)
- As a result, firms able to deliver **higher annual wage growth** (4-5 pp higher) for workers to create a strong middle class

## Boosting demand

- Demand generated through **domestic consumption** from income and credit growth – ~3pp higher annual consumption growth than other emerging economies
- Tapping into **global demand through higher connectivity** – ~30% share of global goods trade and ~25% of global services trade

# ... with a disproportionate contribution from large companies

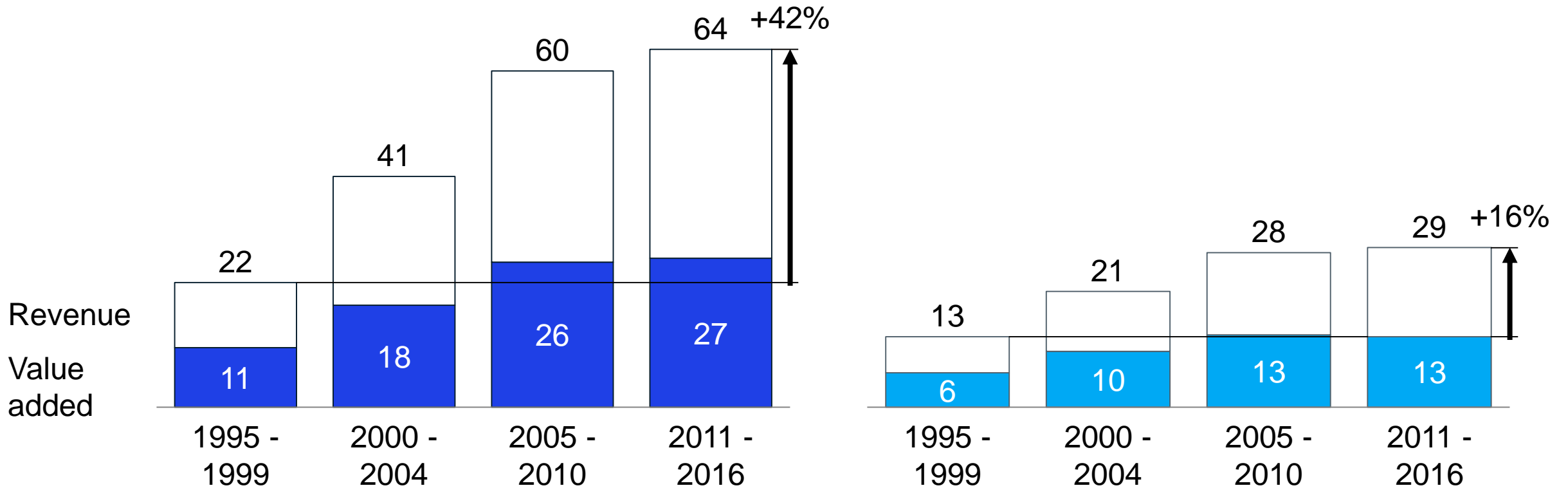
N = 25 economies; 6,474 companies

## Ratio of large-company revenue and value added to GDP

%

### Outperformers

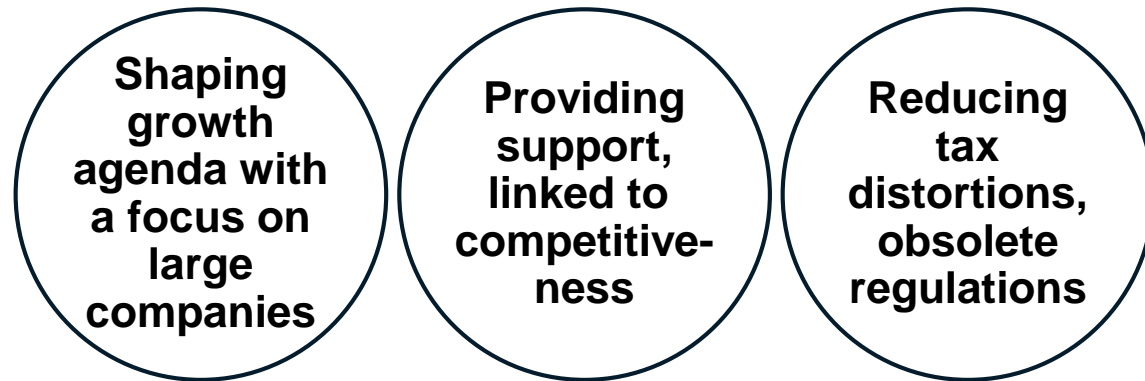
### Non-outperformers



# These countries outperformed by ...

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## Enabling the private sector...



- Addressing constraints in the **business environment** and **promoting exports**
- Putting in place policies to **encourage and promote competition**
- Setting up **Business Councils and Economic Development Boards**

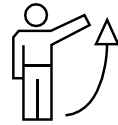
## ...while improving government efficiency



- Sustained **reforms across sectors** (e.g., industrial, financial), accompanied by **state-led investments**
- End-to-end **digitisation** of public services to **reduce leakage** and **transform citizen experience**
- Heavy **capability building** and strong **performance management** for public sector employees

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# Agenda



Outperformers – High growth emerging economies and the companies that propel them



**From Africa beyond Aid to Africa beyond Debt –  
The \$100bn fiscal transformation opportunity**



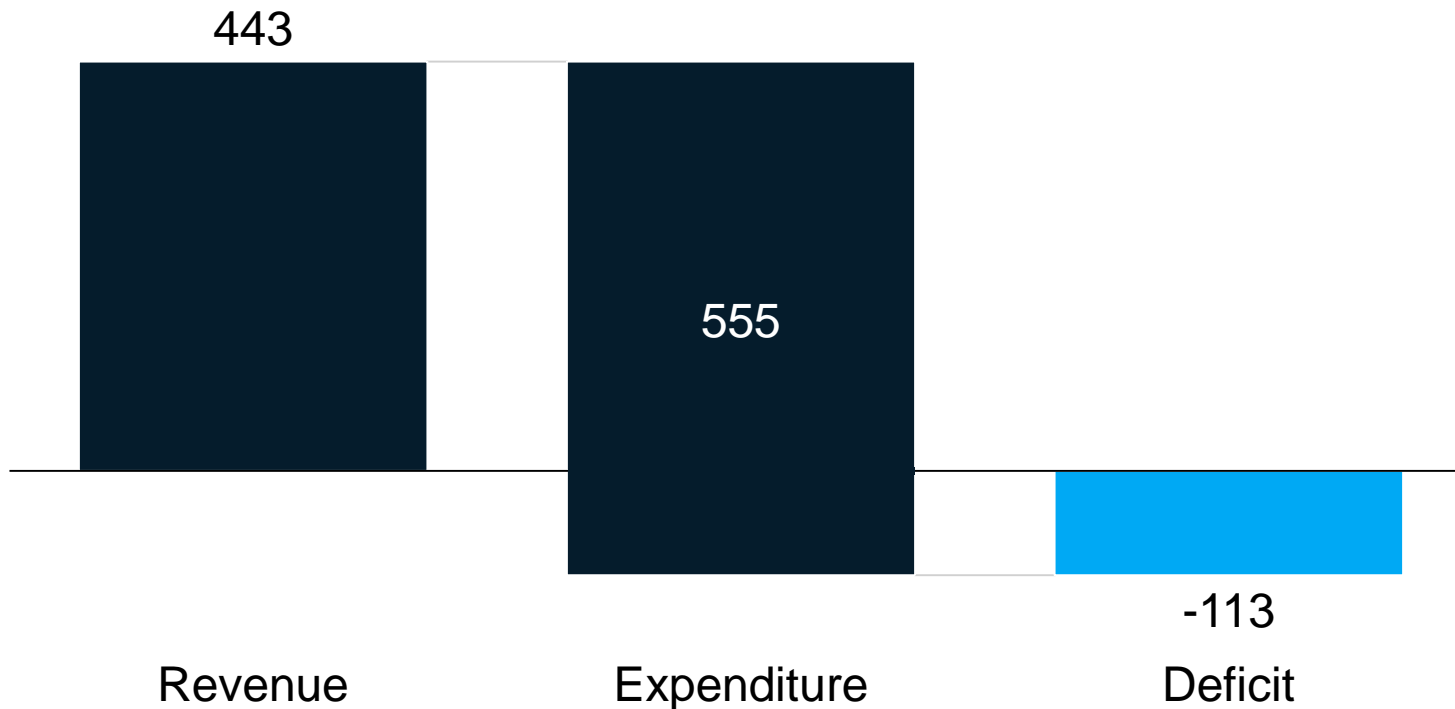
The role of the private sector – The imperative to grow more large African companies



# The African fiscal deficit amounted to \$110+ bn in 2018

## Africa fiscal deficit, \$ Bn, 2018

A deficit of \$110+ bn for the continent ...



1. Excludes Somalia due to lack of data

Source: African Development Bank

... representing

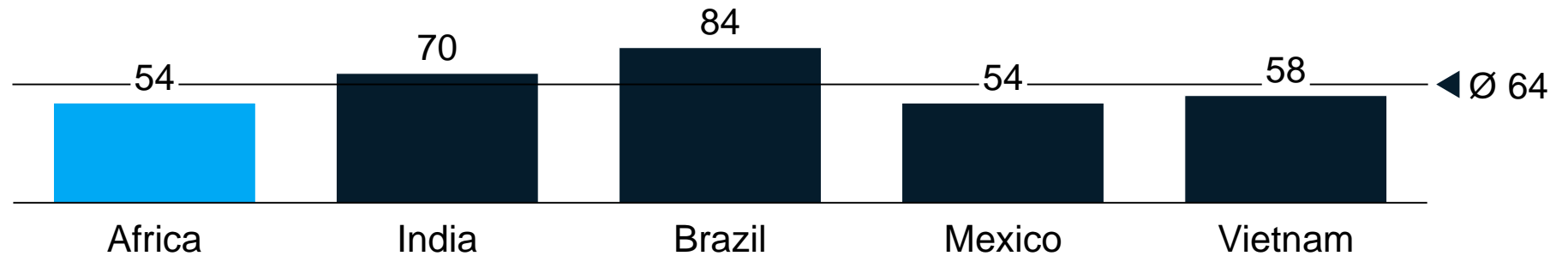
**5%** GDP

**25%** Revenues

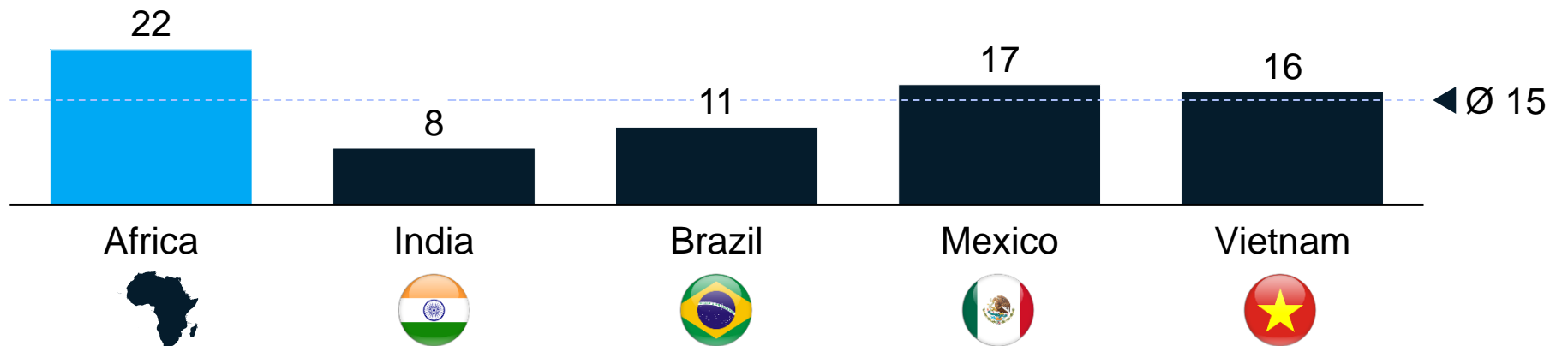
# Africa's debt servicing is higher than other emerging markets, including countries with similar debt to GDP ratios

2017, %

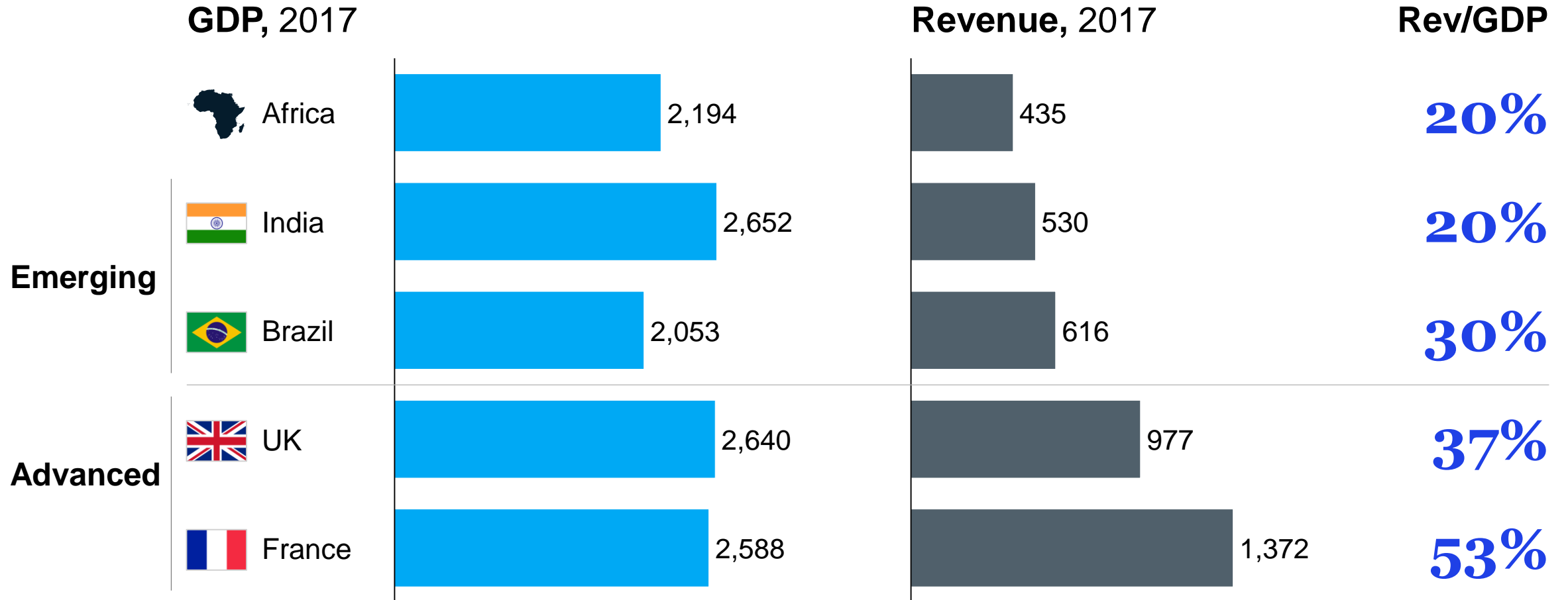
**Total debt,**  
(as a % of  
GDP)



**Debt servicing,** (as  
a % total  
government  
expenditure)

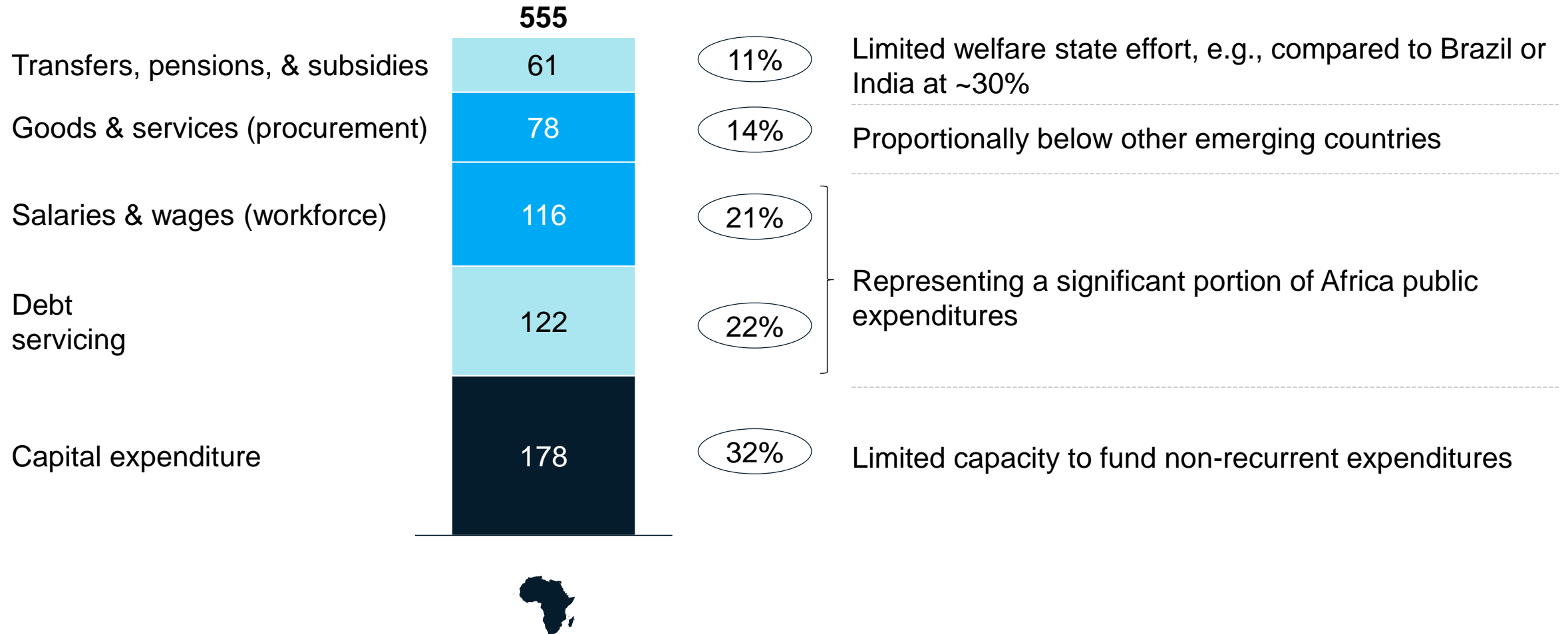


# On the revenue side, we are not 'monetizing' our economy as much as we should



# On the expenditure side, our capacity to fund non-recurrent expenditures is limited

Aggregate African government expenditures, 2018, \$ Billion



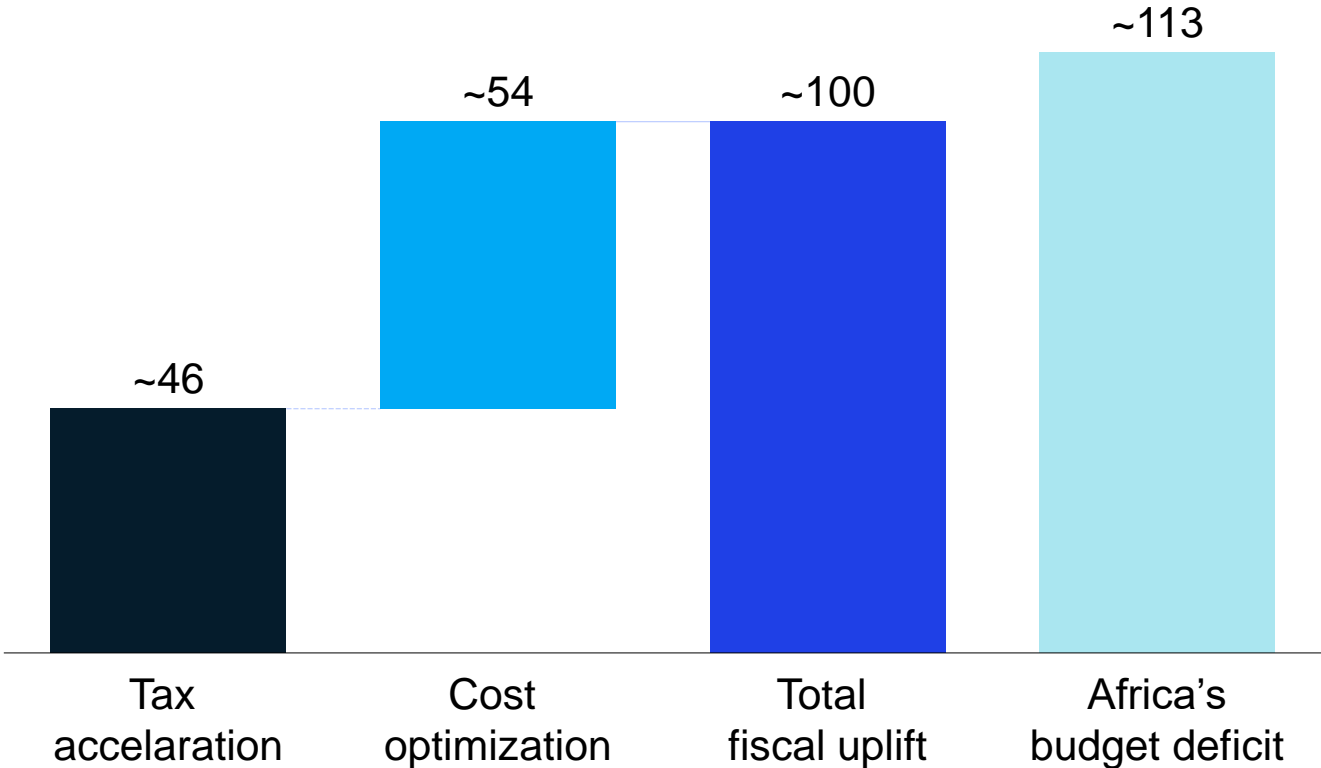
# Africa Beyond Debt – A well-executed fiscal transformation could unlock as much as ~\$100 bn for the continent

From the work we have done with various countries globally, e.g. ...







...we have quantified an annual revenue increase and savings<sup>1</sup> potential of ~\$100 Bn for Africa

Potential fiscal transformation opportunity, 2018 \$, Bn



1. Before accounting for annual GDP growth; resource rents are excluded from tax analysis

# Tax acceleration programs are achieved through modernization across 4 levels

	 <b>Tax policy</b>	 <b>Tax administration</b>	 <b>Management</b>	 <b>Support functions</b>
<b>Main topics</b>	<ul style="list-style-type: none"> <li>Income taxes</li> <li>Consumption taxes</li> <li>Property taxes</li> <li>Customs tax</li> <li>Other (tax exemptions, informality)</li> </ul>	<ul style="list-style-type: none"> <li>Registration</li> <li>Filing</li> <li>Audit / inspection</li> <li>Dispute management</li> <li>Debt collection</li> <li>Tax payer services</li> </ul>	<ul style="list-style-type: none"> <li>Strategy and roadmap design</li> <li>Organization and governance</li> <li>Leadership, talent, and culture</li> </ul>	<ul style="list-style-type: none"> <li>Advanced analytics and data</li> <li>Digital transformation</li> <li>Delivery support and other support functions (HR, Legal)</li> </ul>
<b>Core levers of impact</b>	<ul style="list-style-type: none"> <li>Tax base broadening</li> <li>Tax system simplification</li> <li>Reduction of the informal economy</li> <li>Closing of tax loopholes</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships to access relevant third-party data</li> <li>Specialization and standardization of core processes</li> <li>Improved debt collection</li> </ul>	<ul style="list-style-type: none"> <li>Effective organization structure and governance</li> <li>Robust performance management</li> </ul>	<ul style="list-style-type: none"> <li>Process digitization and data access</li> <li>Efficient central project management office</li> <li>Right talent attraction model</li> </ul>

**\$1-5 bn**

Impact by end of Year 1 delivered in several African countries

# Significant opportunity to improve budget efficiency across all key dimensions

<u>Dimension</u>	<u>Savings potential</u>	<u>Core levers</u>
<b>Capital expenditure</b>	15%-20%	<ul style="list-style-type: none"><li>• Integrated planning &amp; lean construction</li><li>• De-scoping &amp; demand management</li><li>• Contractor &amp; delivery management</li></ul>
<b>Goods &amp; services (procurement)</b>	15%-20%	<ul style="list-style-type: none"><li>• Price harmonization and rationalization</li><li>• Volume discounts &amp; consolidation</li><li>• Standardization for common categories</li></ul>
<b>Salaries &amp; wages (workforce)</b>	5%-10%	<ul style="list-style-type: none"><li>• Ghost worker elimination</li><li>• Performance management</li></ul>
<b>Transfers, pensions, &amp; subsidies</b>	0%-20%	<ul style="list-style-type: none"><li>• Subsidy coverage prioritization</li><li>• Elimination of overhead and leakage</li></ul>
<b>Debt servicing</b>	0%-10%	<ul style="list-style-type: none"><li>• Debt re-financing</li><li>• Change in debt strategy (e.g. local/ international split)</li><li>• Primary dealer system</li></ul>

**5-15%**  
Total savings achievable through these levers

# 6 requirements for successful execution of major fiscal transformation programs

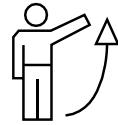
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1. The **right leaders** in place for both the **transformation** and across relevant **institutions**
2. Strong **political will & discipline** throughout the transformation
3. Active **engagement of key stakeholders**, e.g. private sector, development partners
4. Full **change story communicated** throughout the transformation
5. Balanced focus on **aggressive revenue growth** and on **cost control**
6. **Technology** as a key enabler for the transformation



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# Agenda



Outperformers – High growth emerging economies and the companies that propel them

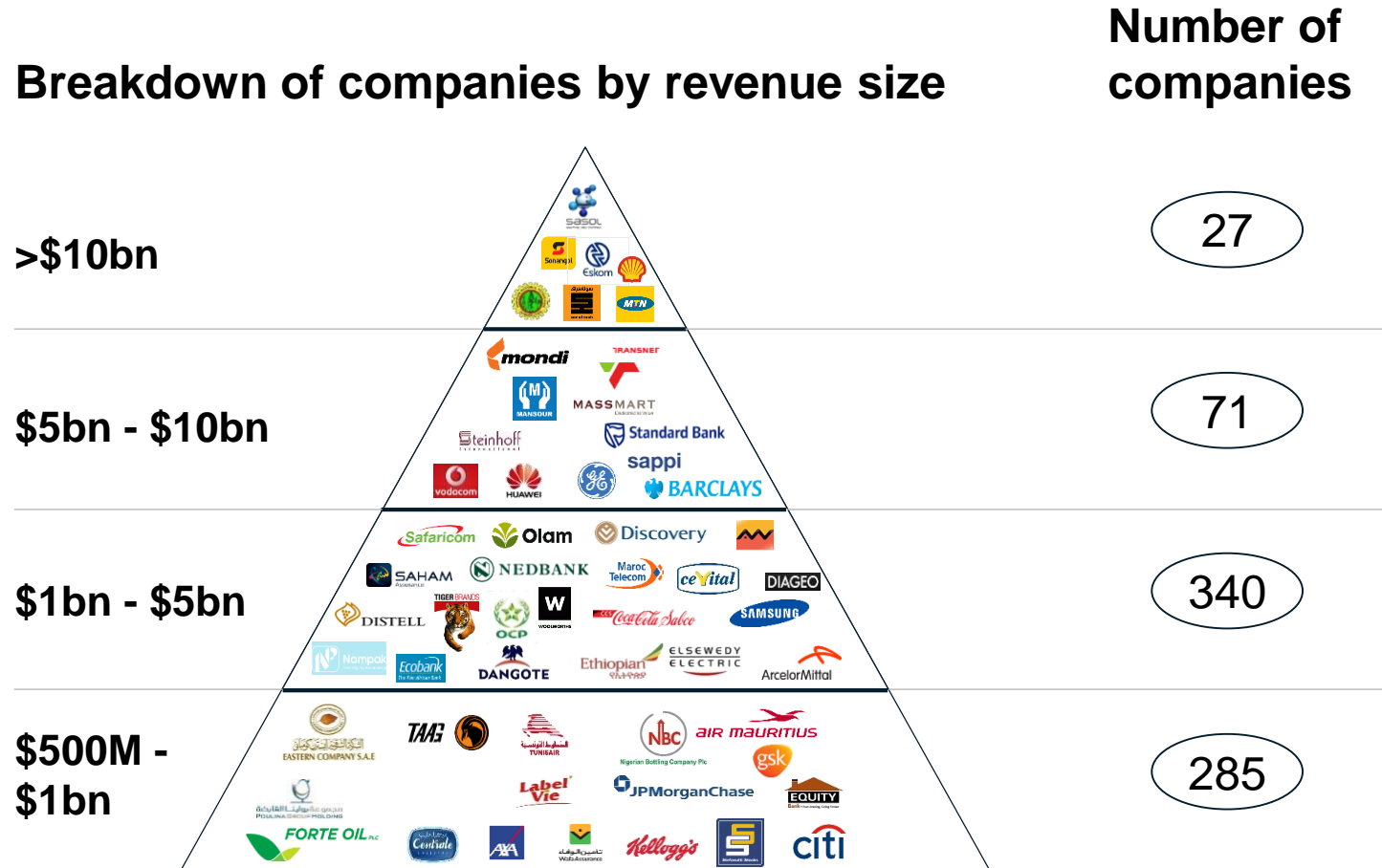


From Africa beyond Aid to Africa beyond Debt –  
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**The role of the private sector – The imperative to grow more large African companies**

# Over 400 companies make \$1bn or more of revenue in Africa today



Companies with revenue >\$1bn

438 companies

\$1,6 Tr revenue

1. 2014 or most recent data

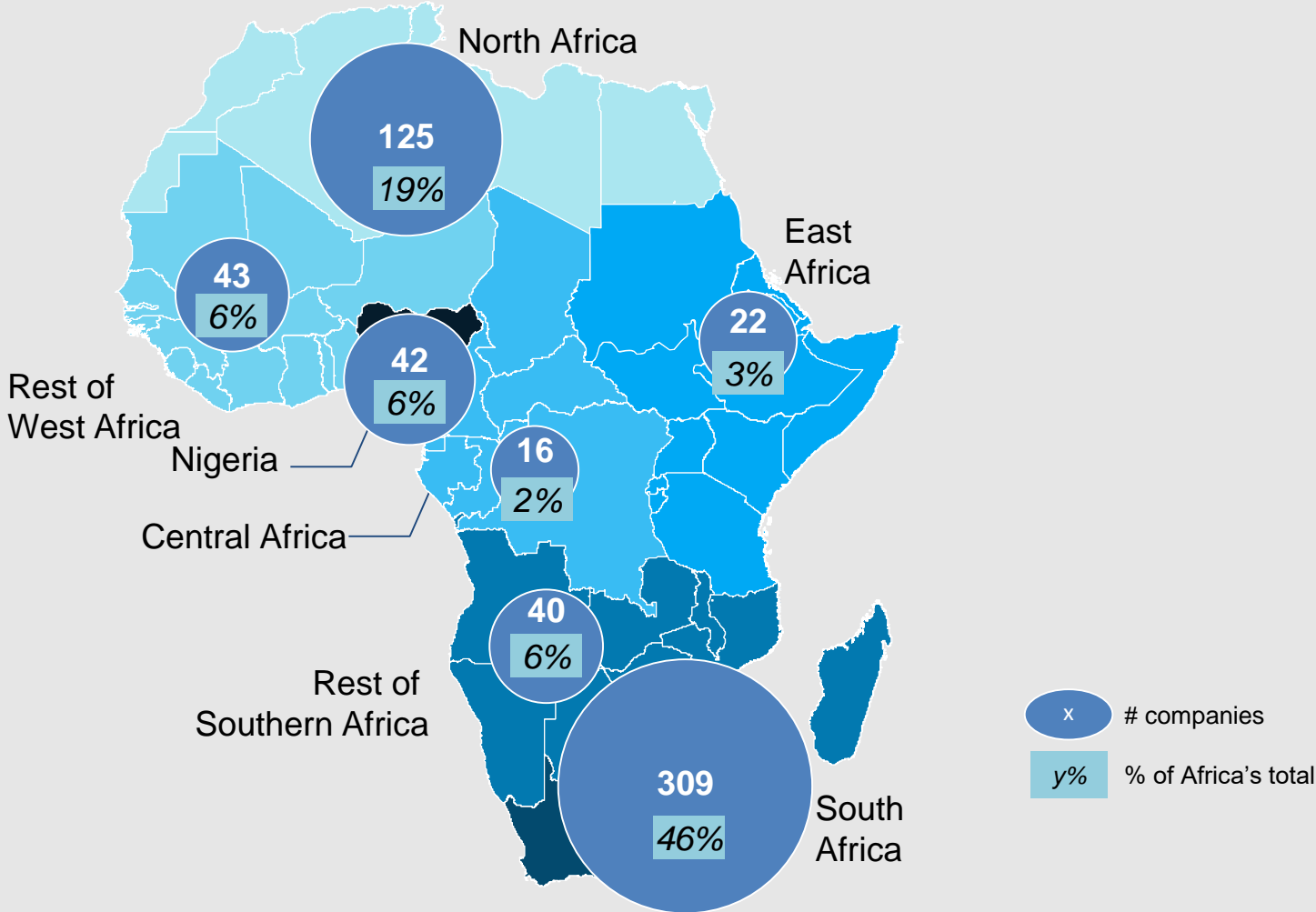
Source: MGI African companies database; McKinsey Global Institute analysis

# Large companies are disproportionately based in South Africa

Number of companies with >\$500M in revenue, by region<sup>1,2</sup>

<sup>1</sup> Region definition from the African Development Bank  
<sup>2</sup> 2014 or most recent data  
 Note: includes MNCs with local branches registered in Africa; does not include MNCs only based outside of Africa

Source: MGI African companies database; McKinsey Global Institute analysis



x # companies  
 y% % of Africa's total

# Resources are the biggest sector among large companies

## Revenues of African companies (over \$500M in revenue)

\$bn, 2012-2014 (most recent available revenue used)

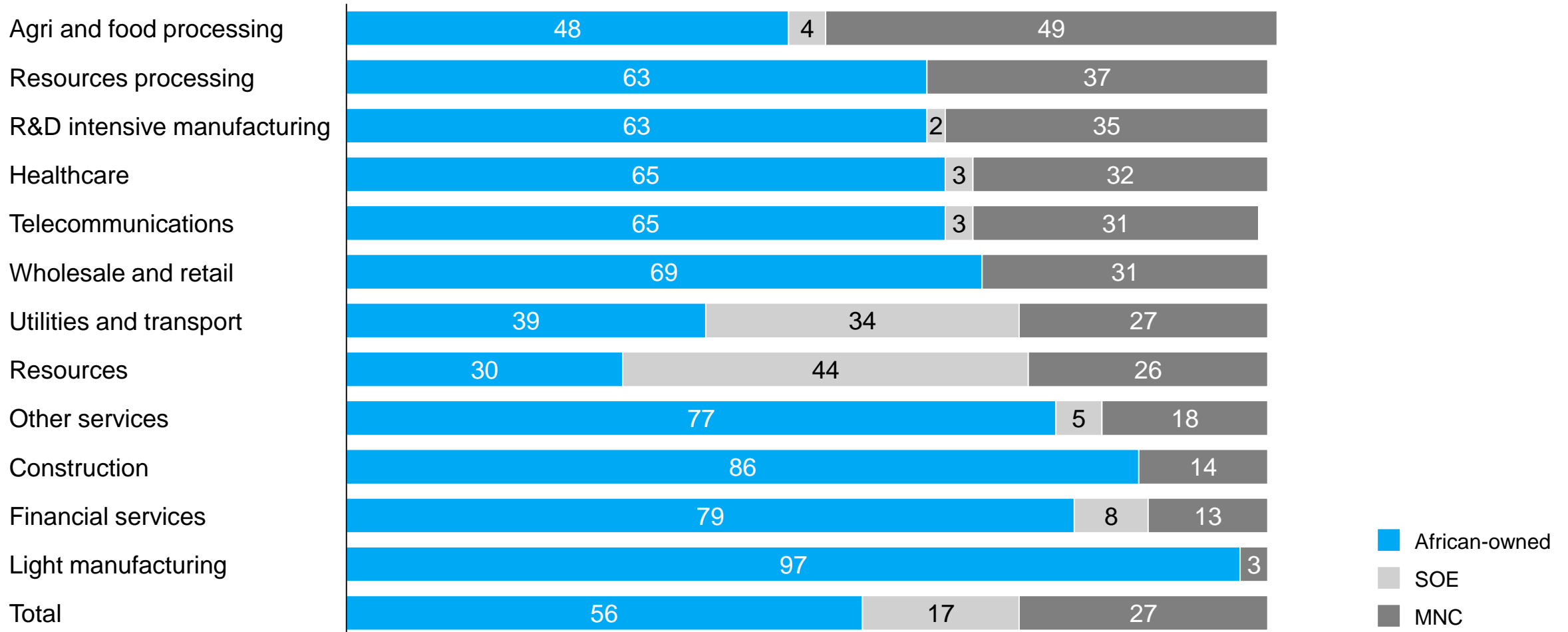
		No. of companies	Share of revenue
Resources	394	116	28%
Wholesale and retail	181	79	13%
Financial services	172	99	12%
Utilities and transport	127	59	9%
Agri and food processing	117	71	8%
R&D intensive manufacturing	95	61	7%
Telecommunications	86	38	6%
Other services <sup>1</sup>	82	52	6%
Light manufacturing	57	28	4%
Resources processing	36	24	2%
Construction	30	21	2%
Healthcare	24	17	2%
Others <sup>2</sup>	20	11	1%

<sup>1</sup> Including IT, real estate, media, marketing, others

<sup>2</sup> Including brokers/intermediaries, restaurants, others

# The company landscape is mostly local companies, followed by MNCs and SOEs

Revenue breakdown by sector and type of company, %; Total=~\$1.8 trillion, 2014 or most recent year

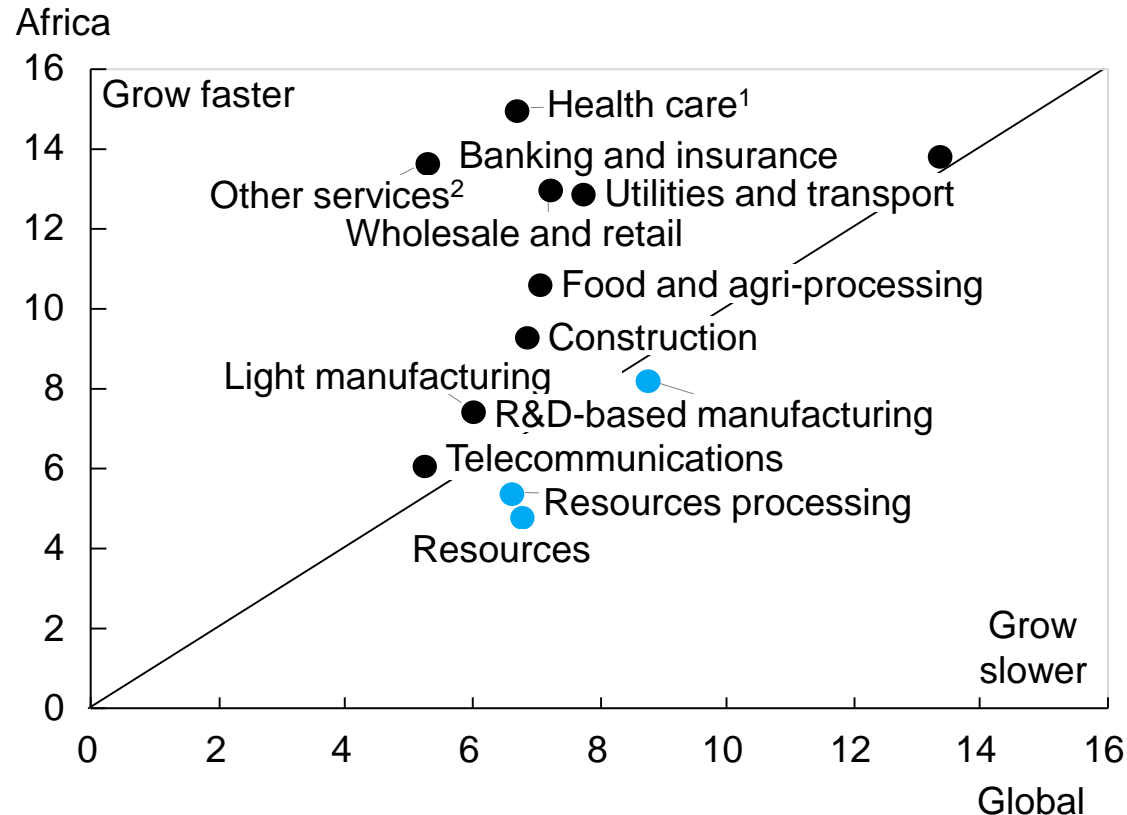


# Companies in Africa tend to grow faster and are more profitable than their global peers

African companies vs. rest of world by sector, from 2008-2014

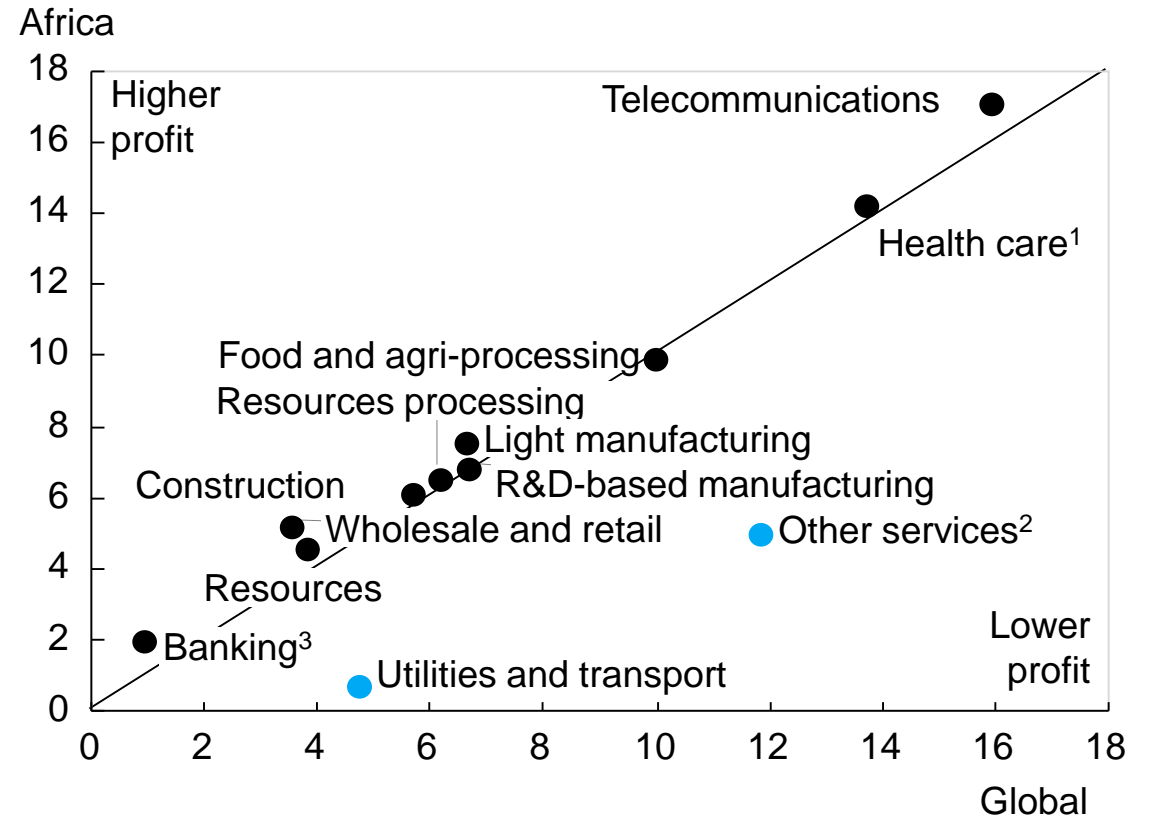
## Growth

% growth, local currency basis



## Profitability

NOPLAT as % of revenue

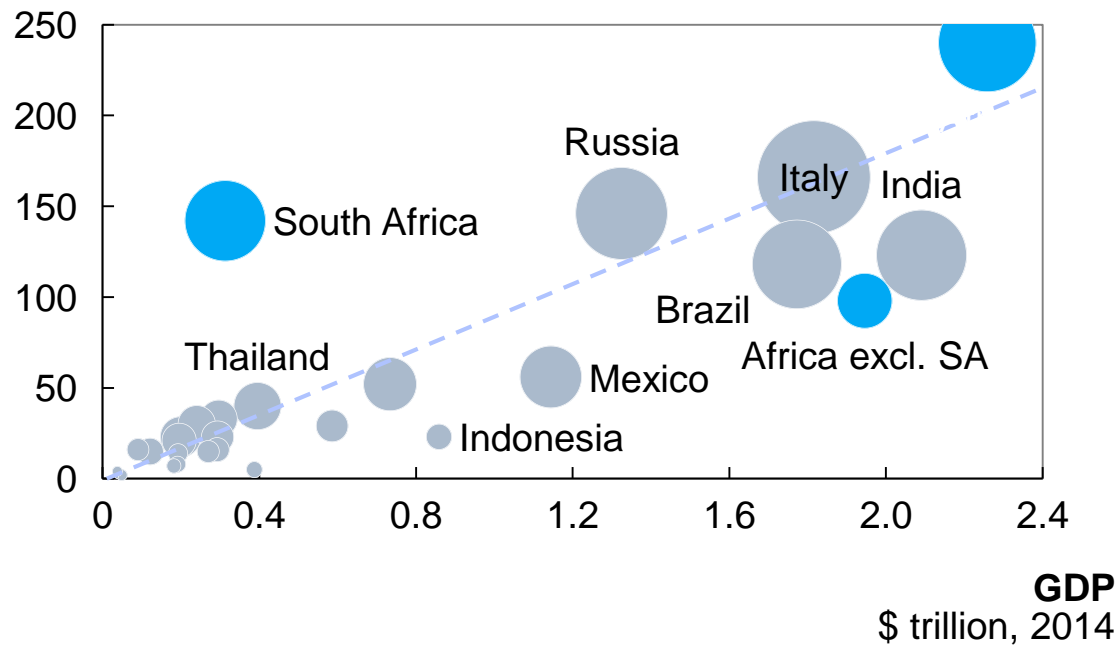


# But Africa has fewer and smaller large companies than other regions

Corporate Africa's revenue pool<sup>1</sup> is a third of what it could be...

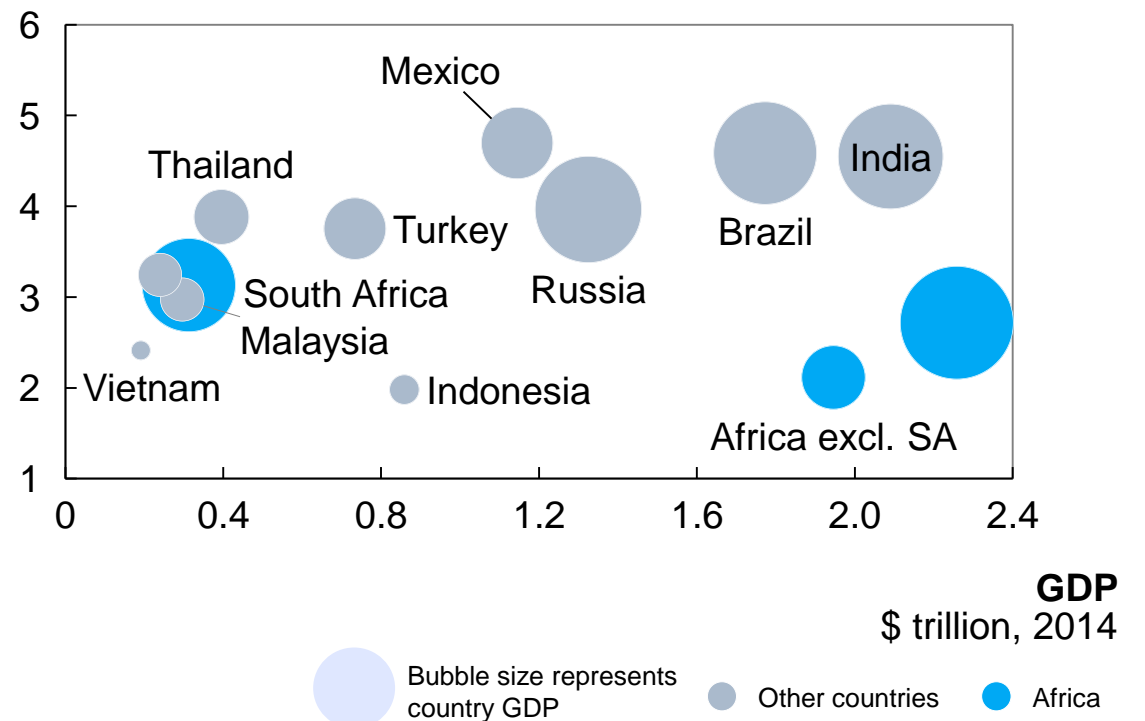
...due to fewer companies

Number of \$1bn+ companies<sup>2</sup>, Number



...and smaller size

Average size of \$1bn+ companies<sup>2</sup>, \$ billion



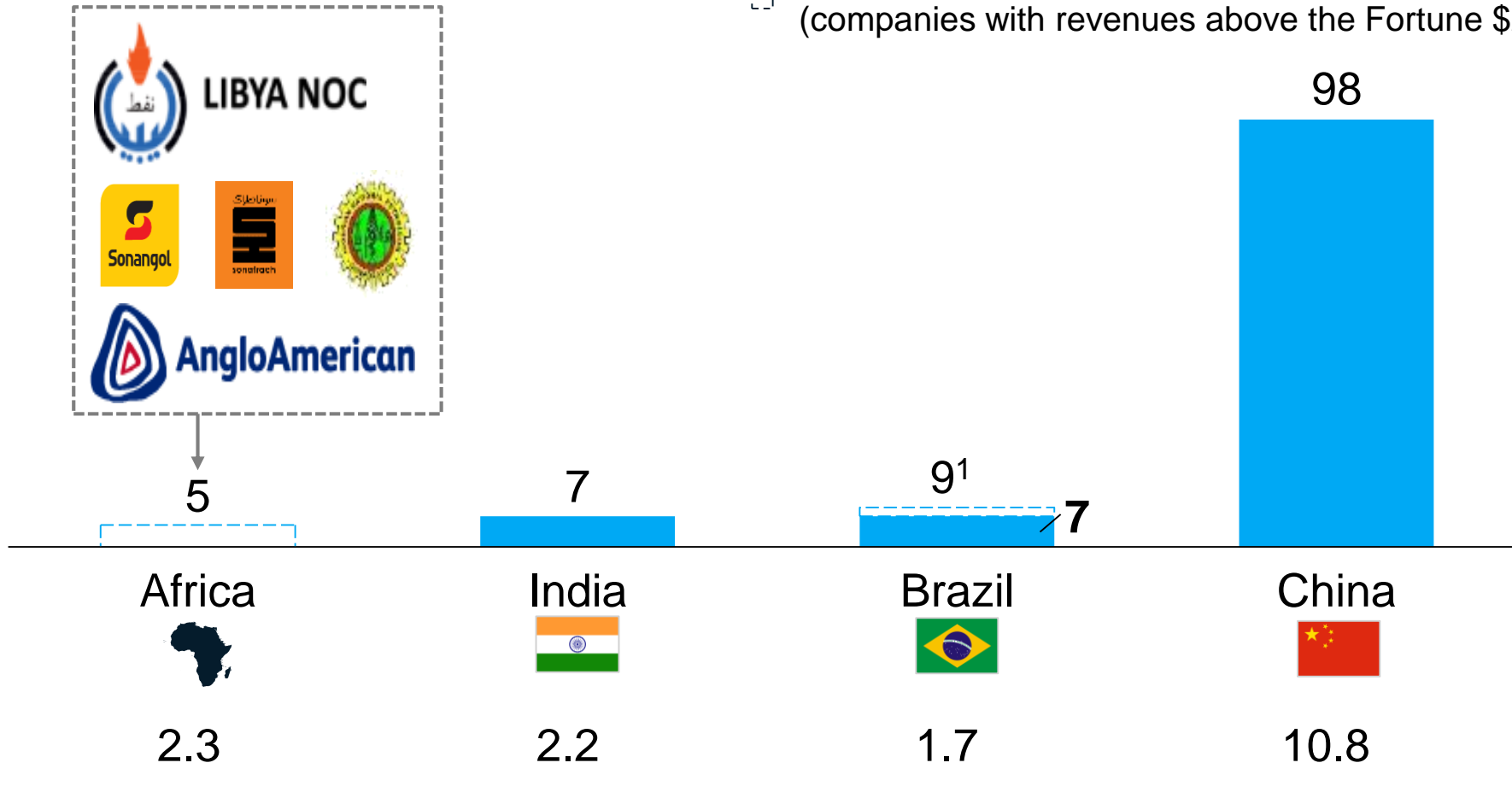
1. Excluding South Africa  
2. Analysis excludes MNCs and SOEs

# ... and no company on the Fortune 500 list ...

Number of companies in Fortune 500 by region/country, 2015

Number

☐ Additions from the McKinsey African company database (companies with revenues above the Fortune \$24bn cutoff)



**Total GDP**  
\$ trn  
2015 prices

NOTE: SABMiller and Old Mutual not included due to insufficient revenue (\$22.3bn each)

1 Two companies with revenue above \$24 bn added to Fortune 500 list: GPA and Raizen



# Four primary constraints to growth for large companies across Africa

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## 1 Small, fragmented markets

Africa is home to only a few large markets spread across the continent, and too many smaller ones

Most local players expand in their home region only, with limited access to other major markets

## 2 Non-conducive industry structure

Some sectors are highly consolidated (e.g., resources, financial services) or mostly informal (e.g., retail)

Makes it harder for small players to grow and expand

## 3 Challenging enabling environment

High operating costs (including labor and electricity)

Cumbersome regulations, corruption, lack of political or social stability

Difficult to access capital

## 4 Lack of specialised supply chains

Weak supplier base requiring many companies to do “everything in house”

Hinders new business formation, limits company specialization and reduces international competitiveness

# In conclusion, how to join the outperformers club? – 7 concrete recommendations

1



## Mobilise domestic resources

- Drive and execute robust **public fiscal transformation** programmes
- Significantly **increase domestic savings** through life insurance and state pension funds

2



## Aggressively diversify economies

- Deliver on reforms to improve the **enabling business environment**
- Shape a proactive **economic diversification strategy**
- Rally **investments into new sectors**, and promote national champions

3



## Accelerate infrastructure development

- **Double annual infrastructure spend** with a focus on power and transportation
- Increase **use and effectiveness of PPPs** particularly in bankable sectors

4



## Deepen regional integration

- Make the **CFTA a reality** in practice
- Drive closer integration of **regional capital markets**
- **Ease travel restrictions** for Africans to travel across the continent

5



## Create tomorrow's talent

- Significantly **increase vocational training** across the continent
- Focus on **education-to-employment, leveraging technology**

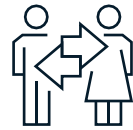
6



## Ensure healthy urbanisation

- Improve **planning, land registration, and logistics**
- Prepare for **15 cities with 5mn** inhabitants
- **Deliver mass housing** for the 190M new urban dwellers by 2025

7



## Transform public leadership

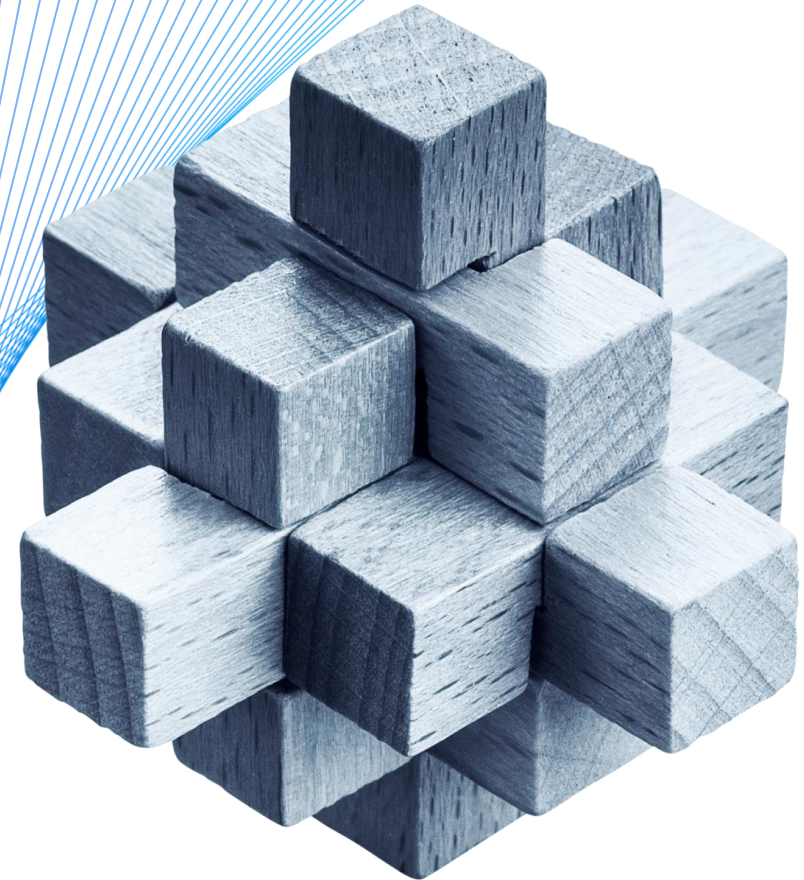
- Strengthen **public sector capabilities** to design, plan and deliver structural reforms
- **Leverage partners** (e.g., private sector, development partners, academics) as need be

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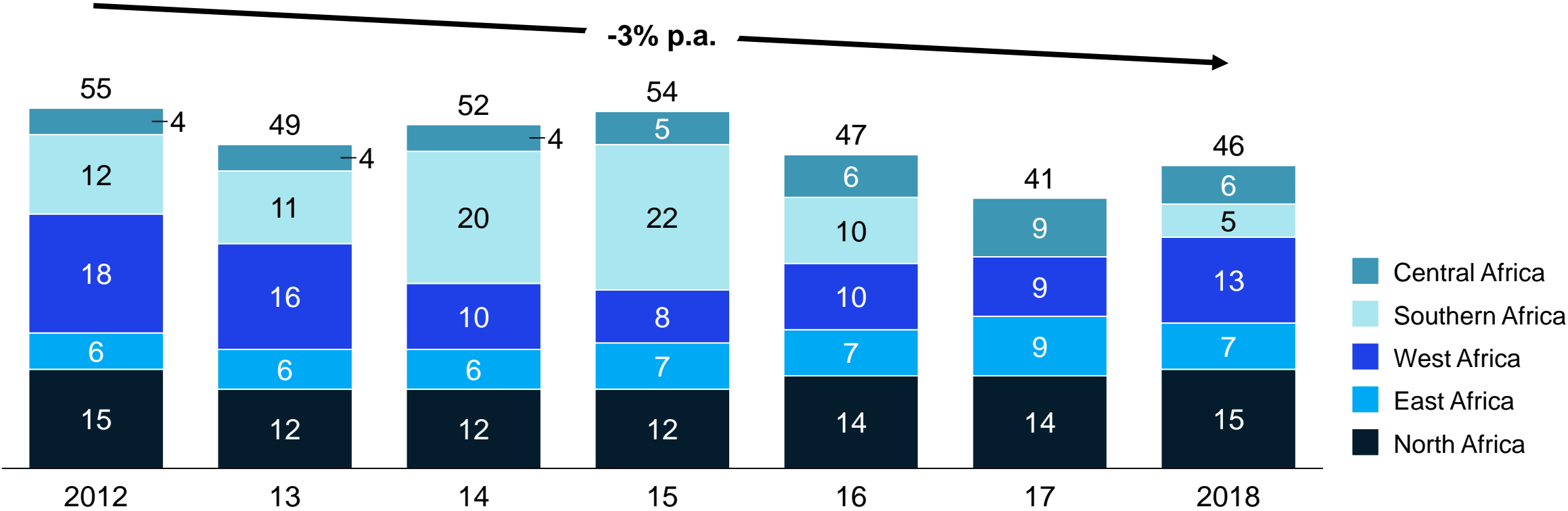
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# FDI flows to Africa are on the decline ...

## FDI inflows, 2012-2018

\$ Bn

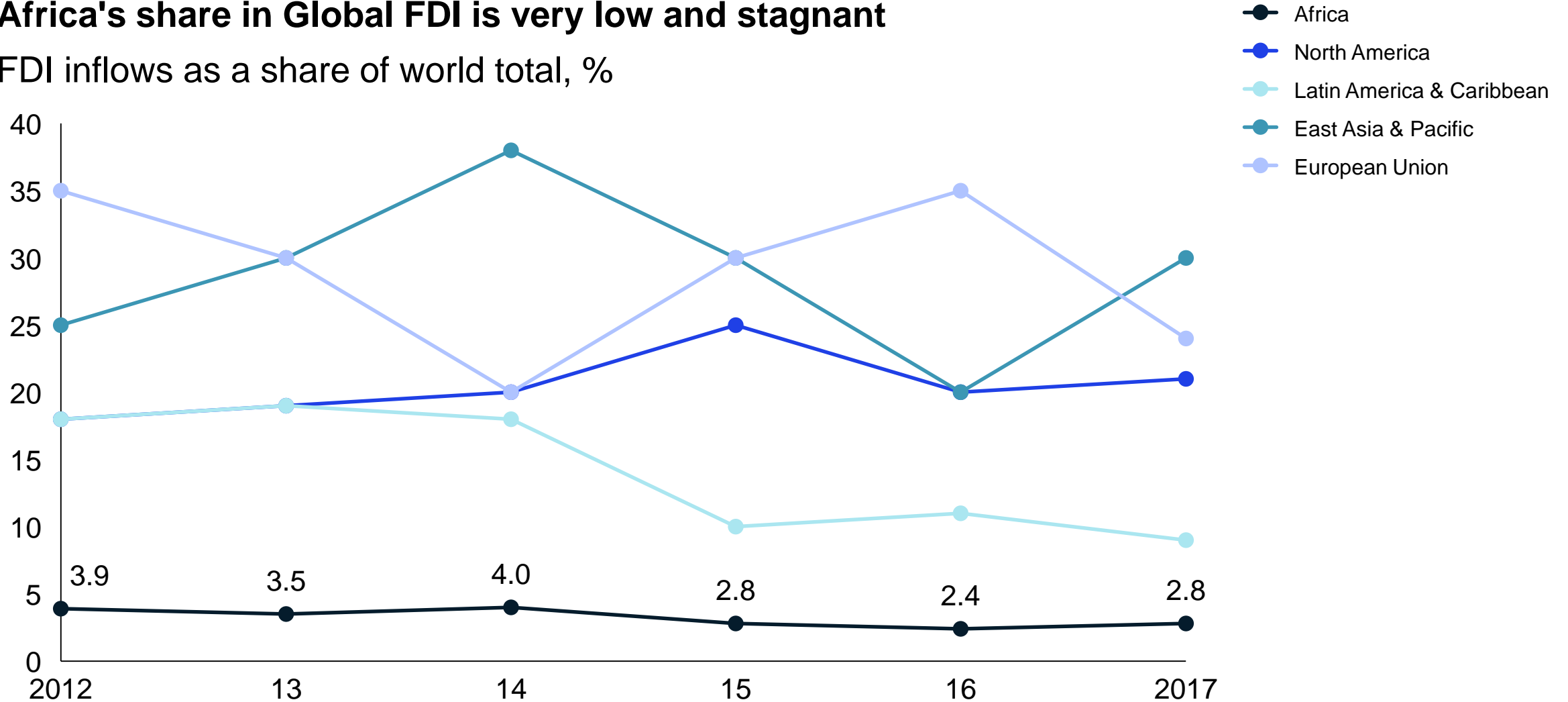


Source: United Nation World Investment Report 2019

# ... and represent an insignificant portion of global FDIs

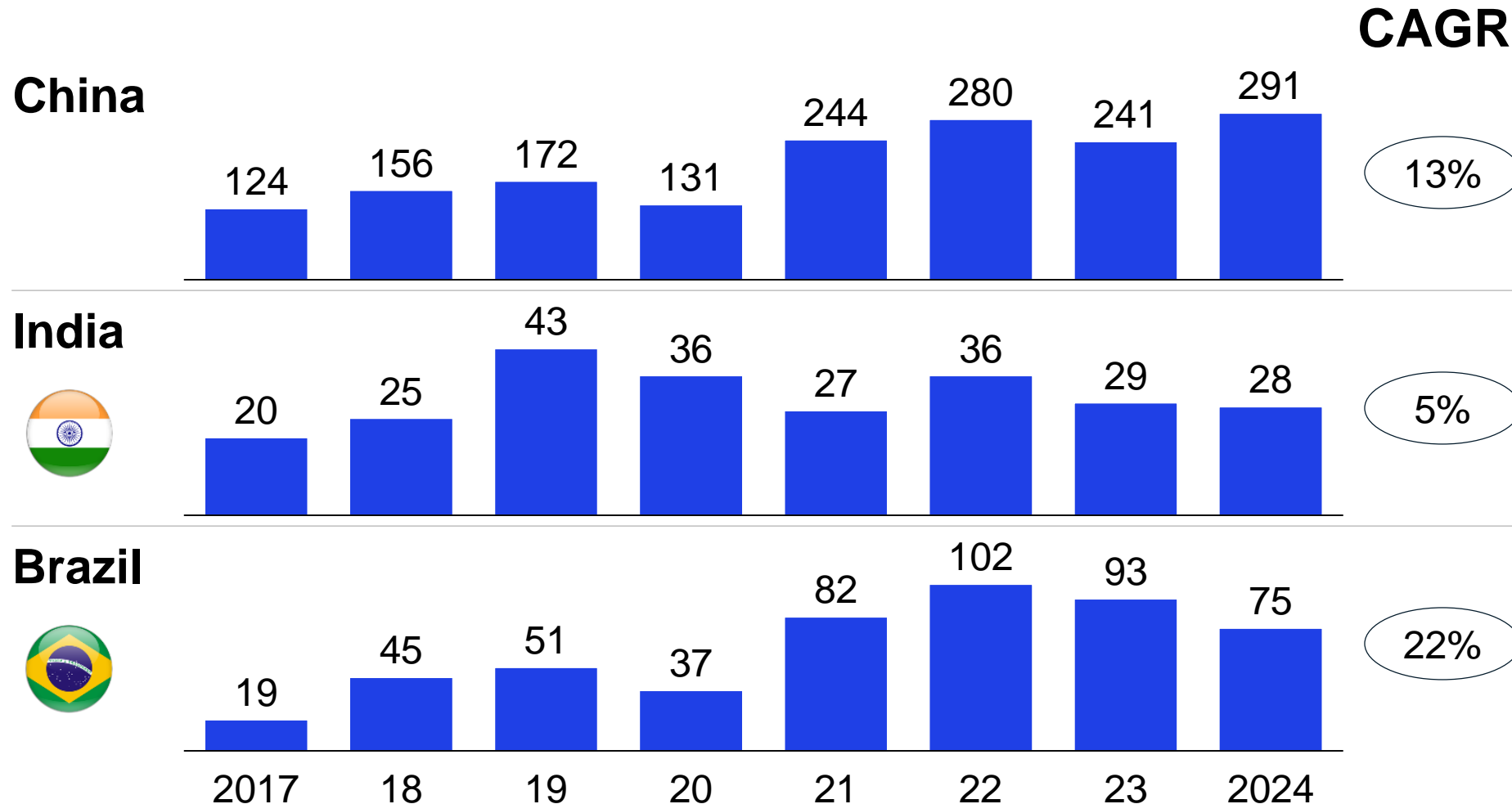
## Africa's share in Global FDI is very low and stagnant

FDI inflows as a share of world total, %



# What FDI aspiration for Africa? - if the continent follows the steps of high growth markets, it should more than double them over the next 5 years

\$ Bn



**x2,  
i.e.  
\$100+ bn  
FDIs by  
2025**