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In Search Of The Africa Manifesto

Why India needs an integrated approach to up its investment numbers in Africa and why it must match the political outreach with a robust economic model for the continent

Photo Credit : Bloomberg



19 March, 2019 by Manish Kumar Jha

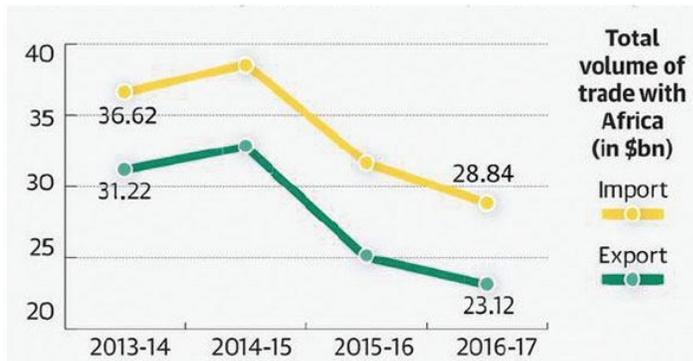
Africa had six of the world's 10 fastest-growing economies in 2018, according to a World Bank report. Take a look at these numbers. The report pegs East African country Ethiopia's growth at 8.2 per cent, West African nation Ghana's at continent leading 8.3 per cent followed by Cote d'Ivoire's 7.2 per cent, Djiboti's 7 per cent, Senegal's 6.9 per cent and Tanzania's 6.8 per cent. Another Central African country Rwanda, which overcame a long political and ethnic crisis, grew at 8 per cent during 2001-2015.

A report by the United Nations Conference on Trade and Development (Unctad) titled 'World Investment Report for 2018', Indian FDI in Africa in 2016-17 at \$14 billion was even lower than it was in 2011-12 at \$16 billion. In fact, with the exception of the 2015 figures, which jumped due to a single investment of \$2.6 billion by ONGC Videsh (OVL) for a stake in the Rovuma gas field of Mozambique in 2014, Indian investment in Africa has been steadily decreasing year on year since 2014. In the larger scheme of things, where global economy and investment footprints come into play, the decreasing investment figures are a cause of concern.

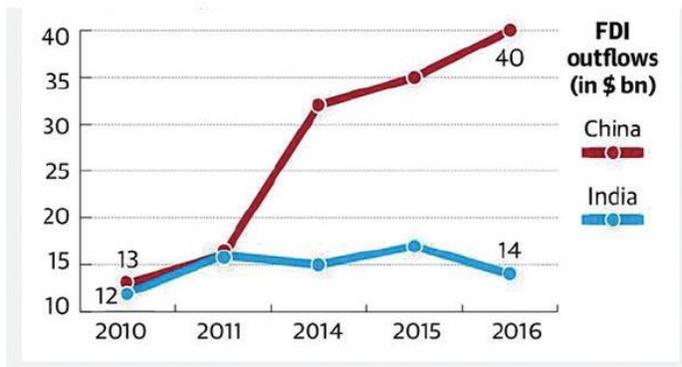
One of the issues has been that the current climate of investment in African countries itself — the country has seen FDI flows drop 21 per cent in 2016-17 according to Unctad. Still, India is the only big investor in Africa to have reduced its investment. China, for example, increased

investment from 2011-12, when its investment levels were identical to India's at \$16 billion, to a massive \$40 billion in 2016-17.

DECLINING TRADE WITH INDIA



INDIA VERSUS CHINA IN AFRICA



A similar slump is seen in India-Africa trade figures from 2013 to 2017, when export and import figures fell from \$67.84 billion to \$51.96 billion. The China-Africa bilateral trade, in comparison, has hovered around the \$170-billion mark. Moreover, China's Belt & Road Initiative (BRI), the dragon country's gigantic infrastructure initiative in Europe, Asia and Africa, is marching in full throttle in Africa since trade is an overarching aim for China's rising power. On India's part, the India's Asia-Africa Growth Corridor (AAGC) initiated with partner country like Japan seemed to march along in the developmental growth of Africa. The concept started as the cornerstone of the mutual and shared values based on sustainable trade and investment in Africa. However, it is pertinent to point out that the AAGC's pace has miles to go before it catches up with China. In fact, the initiative is still mired in words and drafts.

Ignorance Of The Past

Until recently, India's foreign policy for Africa was transient with one or two conferences that New [Delhi](#) would hold. Some economists tracking India's investments in Africa point out that in

the inner sanctum of India's 'babudom', postings in Africa were frowned upon. Moreover, Indian leaders hardly travelled to African nations. Nevertheless Africa got the boost driven by new government's outreach and not by the so-called 'ingenuity' of our foreign policy machinery. What culminated was a grand opera of sort – New [Delhi](#) hosted delegates from most African nations at the third India-Africa Forum Summit in 2015. This renewed interest could also be attributed to the fact that Africa is at a critical juncture and India could play many roles in its growth story.

Ambassador Gurjit Singh has the distinction to be in Timor-Leste, Ethiopia and Republic of Djibouti in different capacities and has also been a India's representative to the African Union, UNECA and IGAD. "This political effort is not matched by an expansion of our economic engagements. The reason is not the lack of political will but the match-making with trade and investment and Exim Banks loans is not taking place."



"There is a lot of financing going from China into Africa state financing enterprises but Indian investment is quite productive as it goes into certain sectors that are creating employment which we like a lot."

Ben Joubert,
Deputy High Commissioner,
South Africa

Shapoorji Pallonji is pioneer among the Indian entities, and believes in the 'next big thing', which will electrify the international trade, despite the inherent 'difficulties' in the continent known as the last frontier. "India's private sector mega investments in Africa have, by and large, been in commodity- or resources-, and technology-based businesses. Oil and gas investments have been under aegis of ONGC and some private sector majors. There have been investments in coal mines, iron ore mines, copper mines and precious metals. Such investments have been swayed by fluctuation in commodity prices; the coal investment has been affected by challenges in evacuation and inadequate infrastructure," S. Kuppaswamy, Advisor, Group Finance and Special Projects, Shapoorji Pallonji, lists the issues influencing investment in the continent.

INDIAN GREENFIELD INVESTMENT IN AFRICA

Year	Capex (\$ billion)
2008	4.3
2009	2.8
2010	4.5
2011	7.7
2012	7.8
2013	5.1
2014	1.1
2015	1.0
2016	1.2
2017	1.1
Total	36.6

Source: Exim Bank of India

So, how does India prefer to address and tap such 'next big thing', which has the potential to redefine the geopolitics and geo-economics as the era of growth narrows down to the continent? India's government-driven investments in Africa have been by way of lines of credit and buyers credit. "However, the lines of credit that have been announced are bigger than ever but the approvals are not as high. Similarly, if there were more credit line finance coming on board, our export would certainly pick up. So, the lack of financing for project export is certainly why Indian imports are not high," reasons Singh. The declining investment figures could also be about the uncanny problem of the return on investment. Indian investment in Africa has been confined mostly to East African zones, as the region is home to large diasporas. The political instability and corruption hinders the climate of investment. Despite such hurdles, China is unfettered when it comes to investing in Africa. The country is scaling up through all possible instruments – from debt financing to equity stakes in Africa's leading banks.

India's Exim Bank has been at the forefront of action despite the lack of sound trade policies. David Rasquinha, MD, Exim Bank, says "In line with the fall in global FDI flows, FDI to Africa decreased by 21 per cent to \$42 billion in 2017. Africa's return on investment dropped from 12.3 per cent in 2012 to 6.3 per cent in 2017, which could partly be explained by the fall in commodity prices during the period and structural factors such as reduced fiscal and labour cost arbitrage opportunities in international operations."

The lower returns on foreign assets also affect longer-term FDI prospects. Decline in FDI flows to Africa from India, could therefore, essentially be driven by global trends with the commodity price downturn and structural factors in effect. This could be the macroeconomic compulsion but does not take away the fact that investment from China has only increased manifold. In the international markets, especially when India's export capability is abysmally low compared to Asian economies such as China, Korea and Japan, opportunities will not knock on your doors, one has to create them. Just like the way South Korea came calling in the post liberalised India, and wove a success story of the scale.

Way Out For India

Data from the African Development Bank shows only 31 per cent of Africa's trade is backed by bank-intermediated trade finance. This is clearly an opportunity for Indian banks. India's banking presence in Africa seems to have lost its relevance over time. The geographical footprint is built around traditional Indian diaspora habitats in east and South Africa, and operations are tailored around ethnic banking services. Despite being a late entrant, Chinese banks have already acquired stakes in leading African banks. As former Ambassador to Djibouti, Singh says, "Not only Exim bank, but other Indian banks should set up a dedicated line of credit to support trade and investment this particular bank company in Africa with whom we have better requirement."

It is the need to diversify our financial outreach with public sector banks taking mandate and getting ready for the commercial operation and development cooperation, too, in Africa. "Yes, some Indian banks like Bank of Baroda that have high exposure in some of the African countries should open dedicated line of credits if partner bank in Africa support and export to that country," suggests Singh.

One important aspect that goes beyond the government and public sector banks, is about Indian companies who need to bolster their day-to-day connect with the African companies. Indian telecom conglomerate Airtel is one such success story leading in 14 countries across Africa with gross revenue of \$824 million in the second quarter of 2019. Airtel is also coming up with an IPO in Africa, which will further boost the capacity and scale in Africa.

Investment hurdles that persists in Africa revolve around tariff barriers and different standards for countries within Africa. "Potential products of exports from India face significant tariff barriers in the African continent. Lack of trade agreements or non-effective PTAs/FTAs with African countries (apart from India-SACU PTA) have been a deterrent to India expanding its market reach in Africa," points out Rasquinha. Efforts could be made for improving market access for Indian products in Africa, as products with export potential for India face significant tariff barriers in the African continent; establishing value chains to boost trade, leading to shared prosperity; and collaboration in areas such as healthcare and renewable energy.

With such obstacles, Indian duty free tariff preference (DFTP) was another good way to promote import in Africa and encourage Indian companies to invest in those sectors where India can do. It needs to be scaled up.

Lack of bankable projects is also a major constraint for infrastructure in Africa. In one such case, Exim Bank responded to this issue by setting up the Kukuza Project Development Company in partnership with IL&FS, AfDB and SBI to facilitate project preparation for infrastructure projects in Africa.

All of this proves that if India is serious about its Africa initiative, a lot will depend on how it marshals its banking and financial sector there. It could be wise to look at the dragon too as China's BRI and massive investment – much of its share go to 'debt-trap', in turn, helping China amass sovereign bonds that will block the entry for others. "Anybody who is not China has the same problem but I am particularly not worried about that. I am more worried about getting our own act together. I believe there is sufficient space in Africa for us to do projects, trade and investment and in many ways African prefer to do deal with us," says Singh. "But the process of the easy flow of financing good project report and quick decision making is what gives the Chinese an edge. An African will tell you that China does more but India does better. I am not trying to advise you to not compete with China but in terms of quantum of financing but we should try and enhance our engagement," he further adds. It is a fact that "India fares low when you compare it to China in terms of credit extended," says Kuppuswamy.

Ben Joubert, Deputy High Commissioner, South Africa, concurs. China and India's investments in South Africa and in Africa follow different models as I see. There is lot of financing going from China into Africa state financing enterprises but Indian investment is quite productive investment it goes into certain sectors that creating employment which we like a lot," says Joubert.

A Friend Of Africa

"India's engagement with Africans always been focused on supporting host country developmental endeavours through its various financial and non-financial programmes," says Exmi Bank's Rasquinha, who is leading with many initiatives in Africa.

The best way forward here is for India to adopt an integrated approach for contributing towards Africa's development in various sectors such as agriculture, infrastructure, power, housing, healthcare, e-governance, etc. In each of these sectors, there are positive pay-offs for both India and Africa. This will differentiate India from China and mark us out as Africa's major partner. Yet another feature of India's assistance programme has been its willingness to create capacity and transfer technology, leading to more skill development in African countries. "All these are bound to stand India in good stead", Kappuswamy sums up

<http://www.businessworld.in/article/In-Search-Of-The-Africa-Manifesto/19-03-2019-168312/>