How do East African cities deliver sustainable economic development through infrastructure delivery?

September 2014
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>East Africa country profiles</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>What are the real problems?</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>A model for economic development</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Our approach to economic development</td>
<td>34</td>
</tr>
</tbody>
</table>
Quite rightly, the talk of an “African economic Renaissance” continues to grow. The reality is that a wide range of African countries have now experienced consistent and robust growth for over a decade. In the period since 2002, the size of the overall African economy has more than trebled. What makes this economic performance all the more remarkable is that half of the decade has been marked by a deeply troubled global economy. A diverse group of African economies (including Ethiopia and Tanzania in East Africa) are among the fastest growing in the world, with growth at 7%+ over a sustained period. The signs for Africa and East Africa in particular are good - investor interest is driven by strong economic growth, rising foreign exchange reserves, quality and cost competitiveness and encouraging Government policy-making. These strong levels of economic growth have led to an expansion of industry, commerce and per capita income which in turn has fuelled demand for infrastructure services including energy, transportation, ICT, water supply, growing agriculture and urban infrastructure.

East Africa has a history that demonstrates the positive relationship between infrastructure growth and country buoyancy (measured by GDP). In the period between 1995-2005, improvements in communication technologies and Power infrastructure boosted growth by approximately one percentage point per year. Indeed in terms of access to improved sources of water and sanitation and internet density, it is at least comparable with the subcontinent’s leader, Southern Africa. However, even with this investment, East Africa’s infrastructure ranks behind that of its neighbours South and West Africa across a range of other indicators and by contrast, density of fixed-line telephones, power generation capacity, and access to electricity remain extremely low (though utility performance is improving through regional power trades). The road network requires improvement and all forms of surface transport are challenged by border crossings, port delays, slow travel, limited railways, and trade logistics. Air transport benefits from a strong hub-and-spoke structure but has made little progress toward a free and competitive market. Of the seven countries in the region, four are landlocked, two have populations of fewer than 10 million people, and two have an annual gross domestic product of less than $10 billion. The difficult economic geography of East Africa makes a regional approach to infrastructure development necessary to achieve further improvement.

We are delighted that this, our first East Africa economic development specific publication, creates an opportunity through our current thought leadership and capabilities, to consider both the unique strengths of each country in the cluster whilst also enabling a genuine discussion on regional infrastructure development, cognizant of a complex set of problem statements. We hope that you are as excited as us at the opportunities for sustainable economic development to galvanize community development and prosperity and set a course for an integrated and connected (East) Africa!

We look forward to meeting with you and discussing every matter of interest.

Warmest regards,

Joe Cosma
East Africa country profiles
Ethiopia

Country overview

<table>
<thead>
<tr>
<th>Opportunity indicators</th>
<th>Risk indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (current)</td>
<td>US$43.13bn</td>
</tr>
<tr>
<td>Population growth (annual)</td>
<td>2.09%</td>
</tr>
<tr>
<td>Population (m)</td>
<td>88.38</td>
</tr>
<tr>
<td>Mobile penetration (% of population with mobile access)</td>
<td>16.67%</td>
</tr>
<tr>
<td>Urban population (% of total)</td>
<td>17.02%</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): 5-year forecast (2018)</td>
<td>6.38%</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): 10-year historical (2003)</td>
<td>9.76%</td>
</tr>
<tr>
<td>GDP per capita (US$): 5-year forecast (2018)</td>
<td>US$677</td>
</tr>
<tr>
<td>Country wealth (1=low income, 2=lower middle, 3=upper middle, 4=high income (non-OECD), 5=high income (OECD))</td>
<td>1</td>
</tr>
<tr>
<td>Literacy rate (total population %)</td>
<td>42.7%</td>
</tr>
</tbody>
</table>


Zemedeneh Negatu
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FDI trends in Ethiopia

Ethiopia’s inflow of investment of FDI since 2003
Ethiopia received 1.6% of Africa’s total FDI for new projects and 0.8% of capital invested since 2007. Nearly 43% of capital invested into Ethiopia went into manufacturing activities. Food and tobacco, textiles, ICT and automotives are the major sector beneficiaries of FDI projects.

Top sectors
Food and tobacco, professional services, textiles and automotives accounted for 54% of project activity.

Ethiopia’s investment into top sectors (2007–12) by most projects
(Total = 69)

Ethiopia’s investment into top sectors (2007–12) by most capital invested
(Total = US$4,833m)

Ethiopia’s top 5 investors for FDI new project since 2007 (total = 69)

India 23%
Other investors 29%
Germany 6%
UAE 9%
United States 19%
China 14%

Ethiopia’s top 5 investors for FDI capital invested since 2007 (total = US$4,833m)

India 12%
Germany 9%
China 8%
Other investors 13%
UAE 42%
United States 16%

Ethiopia’s top 10 project investors since 2007
Countries are ranked by most new projects (2007–12). The top investors show a diverse investment focus toward manufacturing-led activity, while the US’s capital flowed toward resource extraction and the UAE’s toward real estate construction.

Source: All diagrams on this page have been sourced from FDI Markets and EY analysis.
Ethiopia's top investors by their top sector FDI investments since 2007
Investor countries are ranked by most new projects 2007–12.
These top investors contribute to 71% of all project activity and 87% of capital invested into Ethiopia since 2007.

Ethiopia's FDI outlook

<table>
<thead>
<tr>
<th>FDI outlook</th>
<th>2000</th>
<th>2013</th>
<th>2018</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td></td>
<td></td>
<td></td>
<td>Gold reserves and the potential for commercial development in natural gas, iron ore and oil reserves provide growing interest for investors.</td>
</tr>
<tr>
<td>Labour</td>
<td></td>
<td></td>
<td></td>
<td>Working population is growing rapidly and cost of labour remains low. Education and literacy rates are relatively poor but are improving.</td>
</tr>
<tr>
<td>Market size</td>
<td></td>
<td></td>
<td></td>
<td>Still a small economy in absolute terms, but sustained and rapid growth, coupled with a large population, makes this a market with significant potential.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td>Infrastructure levels are rapidly improving, with substantial investments being made.</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td></td>
<td></td>
<td></td>
<td>Bureaucracy is a challenge to business, although improvements are being made (Ethiopia ranks in the 3rd quartile in the World Bank's Doing Business Index, ahead of Brazil and India).</td>
</tr>
<tr>
<td>Political environment</td>
<td></td>
<td></td>
<td></td>
<td>The handover of power following the passing of Meles Zenawi has been smooth, and the political environment remains stable. Ethiopia is a nominal democracy, although power has generally been concentrated in a dominant ruling party.</td>
</tr>
<tr>
<td>Overall outlook for FDI</td>
<td></td>
<td></td>
<td></td>
<td>Natural resources, a large population and a rapidly growing economy, with particular emphasis on manufacturing capacity and agribusiness opportunities, will attract increasing levels of FDI.</td>
</tr>
</tbody>
</table>

Source: Oxford Economics; EY analysis
Ethiopia’s infrastructure project breakdown

Ethiopia’s active* infrastructure projects up to July 2013
Ethiopia ranks 15th in Africa by number of projects and 18th by capital allocation.

Examples of some active infrastructure projects in Ethiopia

<table>
<thead>
<tr>
<th>Project name</th>
<th>Capacity and time frame</th>
<th>Company involvement</th>
<th>Other details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gibe III Hydropower Dam</td>
<td>• 1,879 MW - a 243m-high roller-compacted concrete dam that, once completed, will be the largest of its kind.</td>
<td>Owned and operated by the Ethiopian Electric Power Corporation (EEPCo). The Salini Costruttori was awarded the main EPC contract worth US$54.8b. The Metals &amp; Engineering Corporation (METEC), and Ethiopian company, is responsible for the electromechanical works of the hydropower project. Alstom (France) has the contract to supply the turbines and generators for phase one. + Costs of the turbines and associated electrical equipment of the project is reportedly financed by the Chinese banks, with the remaining funds intended to come from the Ethiopian Government.</td>
<td>The Gibe III dam is part of the Gibe-Omo Cascade project, which includes 184 MW Gilgel Gibe I (in operation), 420 MW Gibe II (in operation), Gibe III (under construction). At least 50% of power generated will be utilized domestically, the rest exported. The 1870 MW of installed power will be generated through 10 Francis turbines in an open-air power house and will provide 6500 GWh per year.</td>
</tr>
<tr>
<td>Grand Ethiopian Renaissance Hydropower Dam</td>
<td>• 6,000 MW - once completed, it will be the largest hydroelectric power plant in Africa. It is 1,800m long and 170m high, with an overall volume of 10 million cubic metres.</td>
<td>Owned and operated by the Ethiopian Electric Power Corporation (EEPCo). The Salini Costruttori was awarded the main EPC contract worth US$54.8b. The Metals &amp; Engineering Corporation (METEC), and Ethiopian company, is responsible for the electromechanical works of the hydropower project. Alstom (France) has the contract to supply the turbines and generators for phase one. Costs of the turbines and associated electrical equipment of the project is reportedly financed by the Chinese banks, with the remaining funds intended to come from the Ethiopian Government.</td>
<td>It is expected to consume 10 million metric tons of concrete, and the Government has pledged to use only domestically produced concrete. Diversion of the Blue Nile was completed on 28 May 2013 and marked by a ceremony the same day. Selling the electricity from the dam would require the construction of massive transmission lines to major regional urban centers such as Addis Ababa and Sudan’s capital Khartoum, both located more than 400km away from the dam.</td>
</tr>
<tr>
<td>Mieso to Djibouti Border Railway Line.</td>
<td>• The entire 656km railway network from Addis Ababa to Djibouti will have about eight main routes that will connect to more than 49 urban centers by 2015</td>
<td>The Ethiopian Railways Corporation (ERC) has entered into a contract with the China Civil Engineering Construction Corporation (CCECC) and the China Railway Engineering Corporation (CREC) to construct sections of the railway. Finance is secured from the China Exim Bank and the Industrial and Commercial Bank of China (ICBC).</td>
<td>The project is part of Ethiopia’s national Growth and Transformation Plan (GTP). Ethiopia and Djibouti’s economies are reliant on each other, with about 70% of all trade through Djibouti’s port coming from its land-locked neighbor. Under the five-year GTP, the Ethiopian Government aims to develop a 2,395kms railway network nationwide, out of which 1,808kms is planned to be completed by 2015.</td>
</tr>
</tbody>
</table>

*Active projects are categorized into three phases: 1. Conceptual to feasibility; 2. Financial closure to early implementation; 3. In progress and near completion.

Source: Africa Project Access, Business Monitor International; EY analysis.
## Opportunity indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Risk indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (current)</td>
<td>US$37.34bn</td>
<td>Ease of doing business overall rank out of 184 countries (13th in Africa)</td>
</tr>
<tr>
<td>Population growth (annual)</td>
<td>2.72%</td>
<td>Transparency International Corruption Perceptions Index (0=highly corrupt, 100=very clean; ranked 37th in Africa)</td>
</tr>
<tr>
<td>Population (m)</td>
<td>44</td>
<td>Strength of investor protection index (0 = unfavourable, 10 = favourable; ranked 19th in Africa)</td>
</tr>
<tr>
<td>Mobile penetration (% of population with mobile access)</td>
<td>67.49%</td>
<td>Logistics Performance Index: overall rank out of 155 countries (26th in Africa)</td>
</tr>
<tr>
<td>Urban population (% of total)</td>
<td>23.98%</td>
<td>Democracy score (0=lowest, 10=highest)</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): 5-year forecast (2018)</td>
<td>5.72%</td>
<td>Mo Ibrahim Index of African Governance (rank out of 52 countries)</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): 10-year historical (2003)</td>
<td>4.91%</td>
<td>Perceptions of governance - rule of law: percentile rank (0=lowest, 100=highest)</td>
</tr>
<tr>
<td>GDP per capita (US$): 5-year forecast (2018)</td>
<td>US$1,209</td>
<td>Perceptions of governance - regulatory quality: percentile rank (0=lowest, 100=highest)</td>
</tr>
<tr>
<td>Country wealth (1=low income, 2=lower middle, 3=upper middle, 4=high income (non-OECD), 5=high income (OECD))</td>
<td>1</td>
<td>Quality of overall infrastructure (1=extremely underdeveloped, 7=extensive and efficient by international standards)</td>
</tr>
<tr>
<td>Literacy rate (total population %)</td>
<td>87.4%</td>
<td>Corporate maximum tax rate (%)</td>
</tr>
</tbody>
</table>


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**Kenya**

**Country overview**

Gitahi Gachahi  
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FDI trends in Kenya

Kenya’s inflow of investment of FDI since 2003
Kenya received 5% of Africa’s total FDI for new projects and 1.5% of capital invested since 2007.
As the hub of East Africa, Kenya has seen robust investment growth, especially into manufacturing-led and consumer-facing activity. Kenya also has as one of the fastest growth rates of all investors of outward investments into Africa. Active exploration and successful finds have seen the resource sector attracting an increasing share of capital; 35% of the total since 2007.

Kenya’s top 5 investors for FDI new projects since 2007 (total = 207)

Kenya’s top 5 investors for FDI capital invested since 2007 (total = US$9,822m)

Top sectors
ICT, professional services, automobiles and transport logistics remain key, attracting a third of all projects and nearly two-thirds of capital invested.

Kenya’s investments into sectors (2007-12) by most projects
(Total = 207)

Kenya’s investments into sectors (2007-12) by most capital invested
(Total = US$9,822m)

Kenya’s top 5 project investors since 2007
Countries are ranked by most new projects (2007-12). Most of India and the US’s capital is directed toward manufacturing and electricity activity, while all the top investors have the majority of their project investments focused into marketing, support, financial and other professional services.

Source: All diagrams on this page have been sourced from FDi Markets and EY analysis.
Kenya's top investors by their top sector FDI investments since 2007
Investor countries are ranked by most new projects 2007–12.
These top investors contribute to 47% of all project activity and 56% of capital invested into Kenya since 2007.

Kenya's FDI outlook

<table>
<thead>
<tr>
<th>FDI outlook</th>
<th>2000</th>
<th>2013</th>
<th>2018</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td></td>
<td></td>
<td></td>
<td>Kenya has historically lacked the natural resources that makes many other African economies attractive. However, the recent discovery of oil in the northwestern Turkana region by Tullow may change that.</td>
</tr>
<tr>
<td>Labour</td>
<td></td>
<td></td>
<td></td>
<td>A rapidly growing working population, a good-quality system of education and a relatively efficient labour market makes Kenya attractive from a labour perspective.</td>
</tr>
<tr>
<td>Market size</td>
<td></td>
<td></td>
<td></td>
<td>The absolute size of the economy is relatively small, but a large population and rising GDP per capita levels offer growth potential.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td>Lack of investment funds has limited spending on infrastructure to date, but investment levels should rise over the next decade.</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td></td>
<td></td>
<td></td>
<td>Significant levels still remain, which hinders business. Although Kenya is well positioned compared with many other African countries, only modest improvements in recent years may be cause for concern.</td>
</tr>
<tr>
<td>Political environment</td>
<td></td>
<td></td>
<td></td>
<td>Progress has been made in embedding democratic institutions and processes. The successful and peaceful presidential election provides cause for optimism.</td>
</tr>
<tr>
<td>Overall outlook for FDI</td>
<td></td>
<td></td>
<td></td>
<td>Kenya is already established as a gateway to the East Africa region, and this status will be reinforced as the region continues to grow and as levels of infrastructure and the institutional environment continue to improve. Oil discoveries in Kenya and the region as a whole will provide an accelerator for growth.</td>
</tr>
</tbody>
</table>

Source: Oxford Economics; EY analysis.
Kenya's infrastructure project breakdown

Kenya's active* infrastructure projects up to July 2013
Kenya ranks 4th in Africa by number of projects and 6th by capital allocation.

![Infrastructure's % contribution by number of projects](chart1)

![Infrastructure's % contribution by capital value](chart2)

*Active projects are categorized into three phases: 1. Conceptual to feasibility; 2. Financial closure to early implementation; 3. In progress and near completion.

Source: Africa Project Access, Business Monitor International; EY analysis.

Examples of some active infrastructure projects in Kenya

<table>
<thead>
<tr>
<th>Project name</th>
<th>Capacity and time frame</th>
<th>Company involvement</th>
<th>Other details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olkaria IV Geothermal Power Project</td>
<td>280 MW – upon completion, national geothermal capacity would have tripled from the current 150 megawatts to 430 megawatts • In progress (brownfield); expected completion by 2014</td>
<td>Owner of the project is the national utility operator the Kenya Electricity Generating Company (KenGen), who has raised US$920m in syndicated loans from: the World Bank, Germany's Development Bank (KfW), the European Investment Bank, the Japan International Corporation Agency (JICA) and the French Development Agency (AFD). The remaining finance comes from the Kenyan Government. The plant commissioned as a turnkey from the main EPC consortium of Toyota Tsusho Corp. (Japan) and Hyundai Engineering &amp; Construction (Korea). The existing Olkaria I power station will be extended by constructing two additional units, which will be built at Olkaria IV. Kenya is the first African country to drill geothermal power, tapping vast steam energy in the country's Great Rift Valley. Four 70 MW power-generating plants, steam-gathering systems, substations, transmission lines and other infrastructure will be installed. Kenya is targeting at least 5,000 MW (70% of its potential) from geothermal power by 2030.</td>
<td>The project will sit on a 81Ha site, making it one of the largest grid-connected solar power plants in Africa. Kenya receives an estimated 4Kwh–6KWh per square meter per day of solar energy, all year round - an annual equivalent solar power potential of roughly 70 million tons of oil.</td>
</tr>
<tr>
<td>Heavy Fuel Oil (HFO) Thermal Power Plant</td>
<td>80 MW - including a 66kv interconnector and backup metering equipment • In progress (brownfield); expected completion by late 2013</td>
<td>Wärtsilä (Finland) was awarded the operation and maintenance (O&amp;M) contract by leading local Kenyan energy company Gulf Power Ltd (GFL) as the holder of the project contract. The Project will have a 20-year power purchase agreement (PPA) with the Kenya Power and Lighting Company (KPLC) - the national transmission and distribution company.</td>
<td>The plant is developed on a 20-year build-operate-own (BOO) basis, and will be powered by 10 turbocharged medium speed diesel (MSD) Wärtsilä engines. When the plant comes on stream, Wärtsilä's total installed thermal generating capacity in Kenya would represent roughly 60% of the country's total thermal capacity.</td>
</tr>
<tr>
<td>Garissa Solar Plant</td>
<td>50 MW - it will produce about 76,473 MWh annually • Still in pre-implementation phase</td>
<td>Chinese PV manufacturer JinkoSolar Holdings (NYSE listed) has joined with the China Jiangxi Corporation for International Economic &amp; Technical Co, Ltd. (CJIC) as a consortium holder of the EPC contract to build the solar power plant.</td>
<td>The project will sit on a 81Ha site, making it one of the largest grid-connected solar power plants in Africa. Kenya receives an estimated 4Kwh–6KWh per square meter per day of solar energy, all year round - an annual equivalent solar power potential of roughly 70 million tons of oil.</td>
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Source: Africa Project Access, Business Monitor International; EY analysis.
South Sudan

Country overview

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<th>NOTE</th>
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<td>US$13.8bn</td>
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<tr>
<td>Population growth (annual)</td>
<td>4.1%</td>
</tr>
<tr>
<td>Population (m)</td>
<td>11</td>
</tr>
<tr>
<td>Mobile penetration (% of population with mobile access)</td>
<td>20%</td>
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<td>Urban population (% of total)</td>
<td>33.2%</td>
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<td>Real GDP growth (compound average growth rate): forecast 5 year (2018)</td>
<td>2.75%</td>
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<tr>
<td>Real GDP growth (compound average growth rate): historical 10 year (2003)</td>
<td>-11.35% A, B</td>
</tr>
<tr>
<td>Country wealth (1=low income, 2=lower middle, 3=upper middle, 4=high income (non-OECD), 5=high income (OECD))</td>
<td>n/a</td>
</tr>
<tr>
<td>Literacy rate (total population %)</td>
<td>27%</td>
</tr>
</tbody>
</table>

NOTE:
A. Independence on 9 July 2011;
B. Gross Domestic Product (GDP) in South Sudan contracted by 55.80% in 2012 from the previous year given an oil transit fee conflict with Sudan

Key factors
1. South Sudan control 75% of daily oil production (Sudan has been the 3rd largest sub-Saharan Africa oil producer)
2. Until January 2012, oil production accounted for 98 percent of the government’s revenues
3. The U.S. government’s long-standing sanctions against the Sudan were officially removed from applicability to South Sudan in December 2011
4. Strong reserves of copper, gold and tin
5. South Sudan has received more than US$4bn foreign aid since 2005 and Government revenues are remain largely dependent on foreign aid. Government is burdened with large levels of debt
6. Insecure property rights and weak price signal given markets are not organised
7. Factors inhibiting investment in South Sudan include limited physical infrastructure, a lack of both skilled and unskilled labour (has fewer than 400 kilometers of paved roads, despite the existence of three power plants, none of which are working at full capacity, the country is almost completely reliant on diesel-run generators for electricity) and Foreign exchange market rules and regulations are highly restrictive

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Tanzania

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<tr>
<td>forecast 5 year (2018)</td>
<td>Perceptions of governance - rule of law: percentile rank (0=lowest, 100=highest)</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate):</td>
<td>Perceptions of governance - regulatory quality: percentile rank (0=lowest, 100=highest)</td>
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<tr>
<td>Country wealth (1=low income, 2=lower middle,</td>
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<td>3=upper middle, 4=high income (non-OECD),</td>
<td>Corporate maximum tax rate (%)</td>
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</table>


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FDI Trends in Tanzania

Tanzania's inflow of investment of FDI since 2003
Tanzania received 3% of Africa's total FDI for new projects and 1.5% of capital invested since 2007. Heightened confidence in Tanzania's economy has bolstered investments substantially. Greenfield projects grew more than five-fold since 2007, and at a robust compound growth rate of nearly 39%. Massive new offshore natural gas finds will boost economic performance in the coming years and afford the potential for the country to become one of the leading gas exporters globally. The resource space currently attracts nearly 40% of capital investments, and 11% of projects.

Tanzania's top 5 investors for FDI capital invested since 2007 (total = US$9,452m)
Other investors 31%  —  UK 46%  —  India 5%  —  South Africa 5%  —  Australia 6%

Tanzania's top 5 investors for FDI new projects since 2007 (total = 128)
Other investors 34%  —  UK 24%  —  United States 6%  —  Kenya 15%  —  South Africa 10%

Tanzania's top 10 project investors since 2007
Countries are ranked by most new projects (2007-12). Nearly half of the UK's capital investments and 20% of their project interests goes towards resources. Manufacturing of beverages and alternative energy too attracts a third of their project focus. The rest of the interest is similarly diverse as those from Kenya, India and South Africa's - with a particular focus on professional services.

Source: All diagrams on this page have been sourced from fDi Markets and EY analysis.
Tanzania’s top investors by their top sector FDI investments since 2007
Investor countries are ranked by most new projects 2007–12.
These top investors contribute to 66% of all project and 64% of capital invested into Tanzania since 2007.

Tanzania FDI outlook

Source: fDi Markets, and EY analysis.

FDI outlook

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2013</th>
<th>2018</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>Some gold reserves and growing levels of optimism about offshore gas fields.</td>
</tr>
<tr>
<td>Labour</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>Rapidly growing working population and rising literacy levels remain attractive.</td>
</tr>
<tr>
<td>Market size</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>Among the fastest growing economies in the world with a sizable population, although GDP per capita levels remain low.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>Lack of investment funds has limited spending on infrastructure to date, but the new IMF-backed plan should see improvements over the next five years.</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>Significant amounts remain, which hinders business.</td>
</tr>
<tr>
<td>Political environment</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>The political situation is relatively stable and corruption is being actively tackled.</td>
</tr>
<tr>
<td>Overall outlook for FDI</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>An increasingly attractive outlook, with rapid growth, attractive natural resource base, and improving governance.</td>
</tr>
</tbody>
</table>

Source: Oxford Economics and EY analysis.
Tanzania’s infrastructure project breakdown

Tanzania’s active* infrastructure projects up to July 2013
Tanzania ranks 8th in Africa by number of projects and 10th by capital allocation.

Tanzania’s infrastructure project breakdown

Examples of some active infrastructure projects in Tanzania

<table>
<thead>
<tr>
<th>Project name</th>
<th>Capacity and time frame</th>
<th>Company involvement</th>
<th>Other details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mnazi Bay (Mtwara) to Dar es Salaam Natural Gas Pipeline</td>
<td>• 532 km Upon completion, the pipeline is expected to handle 210 million cubic feet of gas per day, double the current capacity. • In progress (Greenfield). Expected completion of construction by year end 2014.</td>
<td>Agreements signed between the governments of Tanzania and China for the construction of this US$1.2 billion project. Undertaken jointly by state companies China Petroleum and Technology Development Company (CPTDC) - a wholly owned subsidiary of China National Petroleum Corp. (CNPC) - and Tanzania Petroleum Development Corporation (TPDC). Financed by China Exim Bank loan, which will also finance the construction of two gas processing plants. The loan will be paid over two decades, with first payments starting seven years after the pipeline comes online. Wentworth Resources (UK) is the Mnazi Bay concession partner.</td>
<td>The purpose of the pipeline is to transport Mnazi Bay gas, as well as incremental Songo Songo and Nyuni area gas, other deep water offshore gas, and future incremental gas production along the line to population centres and large-scale industrial users in other parts of the country. Construction is for a new 24in to 36in pipeline between Mnazi Bay and Somanga, and expansion of the current pipeline between Somanga and Dar es Salaam. The natural gas will also be used to manufacture fertilizers, such as phosphate, ammonia, urea and polash.</td>
</tr>
<tr>
<td>Kinyerezi Gas-Fired Power Plant - At Kinyerezi in the Temeke District</td>
<td>• 240 MW - Once operation the plant is intended to cover nearly 20% of domestic demand. • Greenfield (currently in early development stages). Started 2013, expecting to be commissioned in 2017.</td>
<td>National electricity utility, Tanzania Electric Supply Company Limited (TANESCO), is the executing agency and client. The main engineering procurement construction (EPC) contract has been awarded to Sumitomo Corporation (Japan), which will also provide operational maintenance for two years after completion of the plant. The African Development Bank and other Development Finance Institution donors are linked to financing of the project.</td>
<td>The Kinyerezi power plant will be Tanzania’s first combined cycle natural gas-fired power plant, and will feed into the national grid to meet growing power demands. To transport the electricity generated at the Kinyerezi plant, the country will have to develop the electricity grid backbone to accommodate new electricity fed into the grid.</td>
</tr>
</tbody>
</table>

Source: Africa Project Access, Business Monitor International; EY analysis.
Uganda

Country overview

<table>
<thead>
<tr>
<th>Opportunity indicators</th>
<th>Risk indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (current)</td>
<td>US$19.88bn</td>
</tr>
<tr>
<td>Population growth (annual)</td>
<td>3.19 %</td>
</tr>
<tr>
<td>Population (m)</td>
<td>36.84</td>
</tr>
<tr>
<td>Mobile penetration (% of population with mobile access)</td>
<td>48.38</td>
</tr>
<tr>
<td>Urban population (% of total)</td>
<td>15.58</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): forecast 5 year (2018)</td>
<td>6.38</td>
</tr>
<tr>
<td>Real GDP growth (compound average growth rate): historical 10 year (2003)</td>
<td>6.76</td>
</tr>
<tr>
<td>Country wealth (1=low income, 2=lower middle, 3=upper middle, 4=high income (non-OECD), 5=high income (OECD))</td>
<td>1</td>
</tr>
<tr>
<td>Literacy rate (total population %)</td>
<td>66.8%</td>
</tr>
<tr>
<td></td>
<td>Ease of doing business overall rank out of 184 countries (12th in Africa)</td>
</tr>
<tr>
<td></td>
<td>Transparency International Corruption Perceptions Index (0=highly corrupt, 100=very clean; ranked 35th in Africa)</td>
</tr>
<tr>
<td></td>
<td>Strength of investor protection index (0=unfavourable, 10=favourable; ranked 32nd in Africa)</td>
</tr>
<tr>
<td></td>
<td>Logistics Performance Index: overall rank out of 155 countries (N/A)</td>
</tr>
<tr>
<td></td>
<td>Democracy score (0=lowest, 10=highest)</td>
</tr>
<tr>
<td></td>
<td>Mo Ibrahim Index of African Governance: (rank out of 52 countries)</td>
</tr>
<tr>
<td></td>
<td>Perceptions of governance - rule of law: percentile rank (0=lowest, 100=highest)</td>
</tr>
<tr>
<td></td>
<td>Perceptions of governance - regulatory quality: percentile rank (0=lowest, 100=highest)</td>
</tr>
<tr>
<td></td>
<td>Quality of overall infrastructure (1=extremely underdeveloped, 7=extensive and efficient by international standards)</td>
</tr>
<tr>
<td></td>
<td>Corporate maximum tax rate (%)</td>
</tr>
</tbody>
</table>
FDI Trends in Uganda

Uganda's inflow of investment of FDI since 2003
Uganda received 2.7% of Africa's total FDI new projects and 2.7% of capital invested since 2007. Uganda's new oil and gas finds has spurred a lot of interests in the resource space, attracting 75% of all capital investments, and 13% of projects. The consumer-facing and consumer goods sectors, as well as the ICT space and manufacturing activity has underpinned growth and investment in the non-resource economy.

Uganda's top 5 investors for FDI capital invested since 2007 (total = US$17,046m)

Top sectors
Financial and other professional services, marketing and support activities account for half of all projects, while manufacturing and retail activity contributes to another third of all project investments.

Uganda's top 5 investors for FDI new project since 2007 (total = 120)

Uganda's top 10 project investors since 2007
Countries are ranked by most new projects (2007–12).

Neighbouring Kenya is the main investor to Uganda's landlocked economy, with just over half of its project investment directing into financial services, followed by a quarter share of projects into food manufacturing and retail activity. The UK's capital is directed into the oil and gas space, split half between extractive means and processing activity.

Source: All diagrams on this page have been sourced from FDI Markets and EY analysis.
Uganda’s top investors by their top sector FDI investments since 2007
Investor countries are ranked by most new projects 2007–12.
These top investors contribute to 68% of all project and 85% of capital invested into Uganda since 2007.

Uganda FDI outlook

<table>
<thead>
<tr>
<th>FDI outlook</th>
<th>2000</th>
<th>2013</th>
<th>2018</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td></td>
<td></td>
<td></td>
<td>A relatively well-educated population with improving levels of education.</td>
</tr>
<tr>
<td>Market size</td>
<td></td>
<td></td>
<td></td>
<td>The economy is currently small, but high growth rates and a relatively large population offer much potential and is also acting as a hub for other countries like South Sudan.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td>Continued improvement over previous decade, with good level of investment, albeit from a low base.</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td></td>
<td></td>
<td></td>
<td>Significant improvements have taken place and more is expected for years to come based on focus on liberalization.</td>
</tr>
<tr>
<td>Political environment</td>
<td></td>
<td></td>
<td></td>
<td>Elective representation and rule of law is strong although change of top leadership through the ballot is still a challenge.</td>
</tr>
<tr>
<td>Overall outlook for FDI</td>
<td></td>
<td></td>
<td></td>
<td>Natural resources which are a strong pull factor for FDI and good macroeconomic management are significant benefits.</td>
</tr>
</tbody>
</table>

Source: fDi Markets, and EY analysis.
Uganda’s infrastructure project breakdown

Uganda’s active* infrastructure projects up to July 2013
Uganda ranks 5th in Africa by number of projects and 11th by capital allocation.

Uganda’s infrastructure project breakdown

Uganda’s Ministry of Energy and Mineral Development has been nominated for the World Finance Public Private Partnership Awards 2013 because of work on the Bujagali project, for excellence and innovation in the pre-delivery phases. In addition to mobilising private capital, the project promotes private sector ownership and management of the power sector. The project was developed as a turnkey on a build-own-operate-transfer (BOOT) basis with BEL, which included the construction of 100 km of transmission lines.

Examples of some active infrastructure projects in Uganda

<table>
<thead>
<tr>
<th>Project name</th>
<th>Capacity and time frame</th>
<th>Company Involvement</th>
<th>Other details</th>
</tr>
</thead>
</table>
| Bujagali Hydropower (Public-Private Partnership) Project | • 250 MW - Full generating capacity achieved in 2012. It aims to produce 50% of the total national electric power demands.  
Financial close achieved in late 2007, and commissioned in 2012. | Bujagali Energy Limited (BEL) is a project-specific privately owned and managed company, which consists of the consortium of Sithe Global Power LLC (US) and Aga Khan for Economic Development (AKFED). The consortium provided US$190 million in funding. A syndicated group of donors provided the balance of US$610 million project finance. The client is the national electricity utility, the Uganda Electricity Transmission Company Limited (UETCL). The main engineering-procurement-construction (EPC) contract was awarded to Salini Costruitori (Italy). | Uganda’s Ministry of Energy and Mineral Development has been nominated for the World Finance Public Private Partnership Awards 2013 because of work on the Bujagali project, for excellence and innovation in the pre-delivery phases. In addition to mobilising private capital, the project promotes private sector ownership and management of the power sector. The project was developed as a turnkey on a build-own-operate-transfer (BOOT) basis with BEL, which included the construction of 100 km of transmission lines. |
| Tororo-Pakwach Rail Line Rehabilitation - Linking eastern to northern Uganda | • 500 km railway that has been out of operation for the last 18 years. Being fixed in tranches, the first addresses basic clearing and restoring the washed out areas due to flooding, installing new culverts, and re-railing of the track. The next tranche of overhaul work will then commence, which involves new rolling stock.  
• Reopened in August 2013. | Rift Valley Railway (RVR), the current operators and concession holder of the Kenyan and Ugandan rail networks. Kato Contractors, a Ugandan engineering company is doing the initial clearing. Overhaul of wagons and locomotives is being funded by the DFI’s, led by the German Development Bank (KfW). | Under the recently launched National Transport Master Plan, the Government is to improve railway infrastructure with a standard gauge railway line. The project is crucial in linking trade routes strategically between Uganda and South Sudan. As political relations are mended between South Sudan and Khartoum, this rail route is expected to boost more trade as far up as Egypt. Upon completion, a 10-wagon train shall operate the route, which should come as a big boost to farmers, whose produce is not selling cheap because of middlemen and poor transport. |

*Active projects are categorized into three phases: 1. Conceptual to feasibility; 2. Financial closure to early implementation; 3. In progress and near completion.

Source: Africa Project Access, Business Monitor International; EY analysis.
What are the real problems?
Rapid population growth and demographic changes

The African population has topped the 1bn mark or approximately 15% of the global total (this is set to rise to 30% by 2030). Rapid population growth set against a current lack of and/or age of infrastructure further exacerbates the infrastructure crisis (including spiralling costs of maintenance through use, etc.). A lack of infrastructure investment gives rise to questions of intergenerational parity, where future generations are lumbered with the costs arising from current decision making.

Population mobility

Connecting the continent through infrastructure development and removing bottlenecks to greater mobility of people, will allow Africans to work together towards the common goal of developing the continent. There is good progress, Burundi, Kenya, Rwanda, Tanzania, and Uganda - have made some progress on integrating regionally in the East African Community (EAC) since 1999. These advances are critical, as integration would transform the five countries into potentially one coastal, regional economy and reduce transactional business costs.

The impact of changing population demographics on the provision of public services

The potential costs of changing demographics are generally acknowledged but often little understood in detail. There are significant challenges to economies (and City budgets) that need to support younger (below the age of 49) population numbers in terms of employment creation, housing and other basic services (access to health, education, etc.). Africa is going through a process of rapid urbanization. The large majority of these new urbanites lives in unplanned, or informal, settlements. These rapid changes signify serious challenges for these communities (individuals) as well as for city authorities, who are faced with the task of providing the expanding populations with adequate infrastructures and services for water, sanitation and solid waste. Empirical evidence shows that a failure to respond to these needs has profound community impacts (social cohesion, urban poverty, etc.).
There is currently a pronounced infrastructure deficit

A lack of investment in diversified economic infrastructure creates sustainability risks

An over-reliance on a particular technology (power generation source, etc.) will make that economy vulnerable to the provision of those conditions (e.g. over reliance on Hydro-power makes that economy vulnerable to hydrological conditions).

Low current spending on infrastructure

The experience of other developing countries shows that capital investment equivalent to about 25% of GDP is generally needed for a substantial rise in per capita income.

Inefficient use of existing resources

It is often the case that the efficiency of infrastructure programmes can be affected by overstaffing; high procurement costs (coupled with the potential of low quality) and fragmentation over a multitude of small projects.

Increased cost of doing business

Inadequate levels of existing infrastructure (particularly power and transport) increase the transaction costs of business in most African economies. There are no incentive structures to impact positively on market prices and therefore consumer welfare and transactional business costs.

Inadequate infrastructure frustrates continental integration ambitions

To overcome the challenges of continental integration more focus should be given to complimentary cross-border infrastructure, ‘development corridors’ and shared regional standards deliver scale - and economies of scale - beyond the reach of individual country ambition.

Burdensome trade regulations

‘Red tape’ and the costs incurred through complicated border processes and bureaucratic bottlenecks, hinder economic, growth considerably by reducing access to global markets.

Inadequate infrastructure frustrates the promotion of inclusive and sustainable growth

Focussed investment in economic and social infrastructure has played a significant and positive role in the growth performance of fast growing economies (BRICS). Providing infrastructure for the economy and communities is one of the main ways a City will realise inclusive and jobs-rich growth. Affordable infrastructure of a high quality raises economic productivity, permits economic expansion and allows marginalised households and communities to take advantage of new opportunities. It also builds social capital; and raises living standards, as people have access to basic services.
Defining the role of the Public Sector

Providing a suitable enabling framework

A suitable framework that allows for easy Private Sector entry and exit, or the right incentives for operation (sustaining Private Sector investment requires an active and well-performing Public Sector). The Private Sector conditions would include:

- Attractiveness and ‘bankability’
- Technical feasibility
- Potential economic impact
- Exemplary governance:
  i. Quantifiable financial returns
  ii. Strong legal and regulatory framework
  iii. Funding for project preparation
  iv. A positive economic impact
  v. Strong stakeholder engagement
  vi. Political will

Delivering innovative approaches to sustainable infrastructure development as well as financing

Environmental awareness and unique country-specific considerations to the built environment are crucial to sustainable development and strong stakeholder engagement. Governments must proactively seek out innovative financing methods (including the use of efficiency gains from performance improvement, development of infrastructure bonds, combining grant and repayable finance methods to benefit from both options and risk diversification, etc.).

Creating adequate maintenance plans

Maintenance plans are crucial for sustainable infrastructure, both corrective and preventative.
A poor business environment

Inadequate cost recovery
Cost recovery provides the financial foundation for sector development (do tariffs and actual collections cover operational and maintenance costs, what about capital costs for service expansion, do charges encourage local and foreign entrants, where are government subsidies currently and do they need to be re-directed?

Insufficient competition
The full benefits of competition are yet to be realised in most infrastructure sectors. In addition, there is a lack of stability due to unpredictable political interference, and insufficient information about future planning.

The impact of corruption: (including perceived)
Corruption has emerged as a top bottleneck to doing business on the continent.

Low credibility of institutions
The low (including perceived) credibility of regulatory and judicial institutions. Regulatory credibility is undermined in some sectors because of conflicts of interest arising from inadequate separation between policy, regulatory, and operational functions. Effective regulatory decision making can be constrained, by limited regulatory capacity and experience.
Access to financing and the ability to fund investment over time

Baseline country and East Africa spending needs

The continent’s infrastructure spending needs are enormously significant, recent studies demonstrate that about 40% of total spending needs are associated with power. Using their meager fiscal resources, African governments simply cannot keep up with spending requirements. A baseline study that determines priority infrastructure needs (responding to local conditions and potential for wider integration) associated to market attractiveness (revenue returning vs. revenue hungry) and its potential economic impact (job creation, economic diversification, regional integration, enhancing innovation, etc.) is crucial.

Identify opportunities to finance and fund the remaining gap and other infrastructure opportunities

In setting up policies to finance the remaining infrastructure gap and other infrastructure opportunities, two areas need consideration:

- Engage, coordinate and leverage different sources of financing and funding · The long-term maturity of infrastructure projects and their large scale require different types of financiers, including Private Sector, bilateral and multilateral partners. Policymakers therefore need to engage and coordinate with many partners. One challenge will be to find ways to leverage aid flows so as to attract the private investment necessary.

Understanding the impact of efficient use of current infrastructure to reduce the funding gap

A more efficient use of existing infrastructure can reduce the overall funding gap. In order to achieve this goal, policymakers must focus on reducing inefficiencies through measures such as rehabilitating existing infrastructure, targeting better subsidies and improving budget execution (and health) and physical infrastructure (transportation, power, and information and communication technologies).

However, given the potential role of deeper financial markets and more developed capital markets in helping find the necessary resources for such investments, policymakers should also consider improving the infrastructure of the financial system, starting with the payments system.

The difference between funding and financing of infrastructure

Financing is selecting the immediate source of cash that will physically develop the assets, with the repayment of this investment over the life of the asset. Governments have a wide range of financing solutions, both public and private, available to develop infrastructure. Private investors have demonstrated a willingness to participate in a wide range of financing solutions in respect of government infrastructure including.

Funding is the revenue stream that repays the financing. The funding of infrastructure can be considered as the allocation of ultimate cash flows that support the construction and operation of infrastructure.

• Financial Innovation · African policymakers will also need to create appropriate innovative financing solutions. So far, Private Sector investment has focused on areas such as mobile telephones, power plants and container terminals. In other areas, such as power, water and railways, the Private Sector has preferred the use of concessions and other types of contracts. Innovative financing can play a role in attracting Private Sector funds to these areas. Financing infrastructure projects is challenging because of the large size, long tenures and complexity of projects. In Africa, local banks, which dominate the financial sector, are not able to provide sufficient long-term finance. Untapped sources of funding are also relevant. The use of diaspora bonds (like those issued by Ethiopia) as well as the placement of infrastructure bonds to the diaspora (like those in Kenya). In project finance, solutions to mitigate credit risk could involve multilateral partners. It critical to consider investments in financial infrastructure. Generally, efforts are dedicated to investments in social infrastructure (water supply, sanitation, sewage disposal, education and health) and physical infrastructure (transportation, power, and information and communication technologies).

However, given the potential role of deeper financial markets and more developed capital markets in helping find the necessary resources for such investments, policymakers should also consider improving the infrastructure of the financial system, starting with the payments system.
The adverse impacts of climate change

These changes are a major challenge to socio-economic development globally. The African continent, including the East African region, is particularly vulnerable to impacts of climate change affecting key economic drivers such as water resources, agriculture, energy, transport, health, forestry, wildlife, land and infrastructure. The impacts include; water stress and scarcity, food insecurity, diminished hydropower generation potential, loss of biodiversity and ecosystem degradation, increased incidence of disease burden, the crumbling of infrastructure, high costs of disaster management as a result of increased frequency and intensity of droughts, floods and landslides.

The environmental impact of service delivery

The global requirements, driven through regulation, are becoming more stringent and costly. These indicators are motivated and managed through policies and programmes and should be fundamental to any, and all, infrastructure footprint considerations. A change in population (service users, through urbanisation, etc.) can create an inadequate provision of solid and waste water disposal, increased air pollution, due to transport volumes and emission from processing factories, etc.

Infrastructure design and development

Governments across Africa must consider the impact of infrastructure design and development on:

- The ecology
- The production of increased levels of greenhouse gases and other emissions to air
- Water resources and the overall water environment
- Materials used in the infrastructure build itself
- Land use (current and future)
A model for economic development
Introducing our model

1. Vision
   What do you want to achieve?

2. Environment & social indicators
   Why do you need (want) to do it?

3. Economic & spatial indicators
   Where do you do it and what impact will it have?

4. Assess current infrastructure
   Where are you now?

5. The role of the Public Sector
   How do you get this done correctly?

6. Financial management
   Can you afford it?

7. Human capital
   How do you attract the right people?
Our approach to economic development
Introducing our approach

1. Vision
   - Economic impact
   - Sustainability
   - Affordability
   - Deliverability

2. Environment & social indicators
   - Baseline current position
   - Forecast future demand: Basic services
   - Forecast future need: High value sectors
   - Establish appropriate regulatory framework

3. Economic and spatial planning
   - Socio-economic and spatial baseline
   - Gear appropriate measurement tools
   - Framework of key performance areas
   - Measure the impact of
   - Public Sector spending

4. Assess current infrastructure
   - Baseline current provision
   - Determine existing barriers
   - Consider incentive structures
   - Assess opportunities of regional transport corridors

5. The role of the Public Sector
   - Revitalise the Public Sector compact
   - Develop enabling frameworks
   - Develop innovation opportunities
   - Stakeholder engagement
   - Customer and service delivery

6. Financial management
   - Financing
   - Funding
   - Revenue management
   - Expenditure management
   - Treasury management
   - Balance sheet management
   - Fiscal in/dependence

7. Human capital
   - Organisational structure
   - Roles and responsibilities
   - Allocation of resources
   - Organisational capabilities
   - Governance, culture, talent, location, systems and process alignment to organisational design
The details
How to ensure you get it right

Financial appraisal

• Ability to attract foreign debt and equity funding (return vs. risk, limits, etc.)
• Assess the capacity of domestic and international markets to fund
• Financial instruments to attract private sector equity, debt and participation
• Low risk innovation opportunities and equitable risk transfer

Economic metrics

• Unlock economic opportunities
• Consider unique city and regional synergies
• Investor considerations:
  • Long term growth in national productivity
  • Inflation rates is short term interest rates
  • Trends in the balance of payments and international debt levels
  • Trends in domestic budget balance and level of public debt
  • Government spending as a proportion of GDP
  • Actual GDP growth
  • Savings rate

Spatial planning

• Addresses: Economic prosperity; social well-being and environmental targets at the same time and balances their respective needs
• Needs analysis/assessment:
  • Economic impact modelling
  • Environmental studies/expectations
  • Social indicators and future forecasts
• Concentration of 'use', co-use synergies and multiple spatial uses are promoted
• Critical to harmonise regional development
City management

Leadership ambition

- Clear political mandate
- Democratic, accountable link
- Contextual and reality based direction
- Strategic and operational plans are aligned and resourced

Functional responsibility

- Services performed
- Needs vs. ambition
- Enabling structures & technologies
  - Economic growth & regeneration

Regulatory responsibility

- Fiduciary structures;
- Constitutional arrangements;
- Decision making capabilities
- Organisational improvement tracking

Financial autonomy

- Revenue management
- Expenditure management
- Balance sheet management
- Proactive treasury management
- Cash reserves
- Fiscal in/dependence
- Impact of financing decisions/instruments

Customers, Partners & Resources

- Services performed
- Needs vs. ambition
- Enabling structures & technologies
  - Economic growth & regeneration

Environment (local, regional/international):
- Technology constraints or opportunities
- Environmental issues
- Legislative change

Environment (local, regional/international):
- Macro-political
- Economic landscape
- Social indicators
The key components of financial management

- Balance sheet management
  - The balance sheet offers a snapshot of a city's health. It tells you how much they own (its assets), and how much it owes (its liabilities). The difference between what it owns and what it owes is its equity (net assets/liabilities).
  - The balance sheet tells investors a lot about a city's fundamentals (financial ratios; cash holdings; financial performance measures; etc.).

- Treasury management
  - Cash reserves are an essential part of good financial management.
  - They help cities cope with unpredictable financial pressures and plan for future spending commitments.
  - Cities hold cash reserves to generate investment income or avoid external borrowing and hence secure financial savings.

- Expenditure management
  - Sustainable success depends on funding and credible income streams.
  - Impacted by inefficient day-to-day processes:
    - Inadequate technology;
    - A lack of data integrity;
    - Unreliable and time consuming manual processes;
    - Inconsistent credit control and debt collection measures;
    - A culture of non-payment; and
    - A lack of capacity and skills.

- Revenue management
  - What is the extent of financial dependence or autonomy?
  - What are the risks associated with the relationships?
  - Implications:
    - Revenue raising opportunities?
    - Pre-implementation - active role in policy formulation.
    - Post-implementation - active lobbying that is evidence based (legislation change or additional funding request, etc.).
    - Importance of mature IGR

- Fiscal in/dependence
  - Inherently, cost containment is a highly sensitive and difficult topic to drive internally and communicate externally.

  Opportunities for efficiency improvements:
  - Simplifying and standardising core process activity.
  - Challenging and standardising management structure/s.
  - New service delivery platforms (outsource, shared services, etc.).
  - Third party spend optimisation.

- Management of working capital is critical to increase available cash flow across receivables, payables, inventory and cash/banking management.

- Effectively leveraging operational processes, human assets and technology enablers.
### Vision 2020

#### Positioning

**What is our point of competitive differentiation?**
The highest performing teams, delivering exceptional client service, worldwide.

#### Quality and values

Running through everything are our shared values, which inspire our people worldwide and guide them to do the right thing, and our commitment to quality, which is embedded in who we are and in everything we do.

#### Our purpose

**Building a better working world**

EY is committed to doing its part in building a better working world.

The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

#### Strategy

**How we will get there?**

Relentless focus on winning in the market.

- Deliver Exceptional Client Service
- Maximize opportunities in markets and services
- Create the highest performing teams
- Attract, develop and inspire the best people
- Commit to a culture of world-class teaming

**Strengthen global, empower local**

- Press our global advantage
- Empower local teams by enabling their success

#### Our ambition

By 2020 we will be a US$50 billion distinctive professional services organization.

- We will have the best brand
- We will be the most favored employer
- We will be #1 or #2 in market share in our chosen services
- We will have leading growth and competitive earnings sufficient to attract and retain world-class talent
- We will have positive and strong relationships with our stakeholders
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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