Africa and the United States: A defining relationship of the 21st century
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About Investec Asset Management

Investec Asset Management is a global investment management firm serving institutional investors, advisors and individual savers. The firm was founded in Africa in 1991. Today we’re an international business managing $123 billion for clients based all over the world, with more than $35 billion invested in the African continent*.

We have major offices in London, New York, Cape Town, Hong Kong, Sydney, Singapore, Johannesburg, Windhoek, Gaborone, Guernsey, Taipei and Luxembourg from which we serve our clients.

The Investment Institute is the strategic insights and engagement platform of Investec Asset Management. The goal of the Investment Institute is to provide insight on key political, economic and investment trends that impact investment decision-making across geographies and asset classes. We do so by leveraging the investment expertise within our firm and fostering partnerships with a global network of leading thinkers and practitioners. Our partners include Harvard University, the International Crisis Group, the World Economic Forum among others.

About The U.S. Chamber of Commerce

The U.S. Chamber of Commerce is the world’s largest business organisation representing the interests of more than 3 million businesses of all sizes, sectors, and regions. Our members range from ‘mom-and-pop’ shops and local chambers to leading industry associations and large corporations. They all share one thing in common—they count on the Chamber to be their voice in Washington, D.C.

The Chamber’s Africa Business Initiative (ABI) engages the U.S. business community on legislative policies that foster foreign direct investment in Africa, facilitates trade between the United States and African countries, and introduces U.S. companies to the continent’s vast economic opportunities.

The biggest obstacles to economic engagement across Africa are the unknown and perceived risks. ABI’s job is to help companies mitigate these risks through advocacy and access and by identifying investment opportunities.

ABI’s relationships with key members of Congress, the Administration, and foreign governments open doors for strategic dialogues that foster private sector engagement in Africa.

*Source Investec Asset Management as at 30.06.14
A new chapter in the story of Africa

The past decade has been remarkable for the African continent, where mankind began. Economic growth in sub-Saharan Africa has averaged 5.5% per year, making it the second fastest-growing region in the world. Human development has improved across the board – particularly in health, education and overall living standards. Infrastructure is being built both productively and effectively. All of this has happened after many people – in Africa and abroad – cynically wrote off the continent and the prospects of its over 1 billion, predominantly young citizens. Today, there is no doubt that Africa, in spite of many well-known challenges, is rising.

The next phase of Africa’s history will move it to a very different position in the unfolding world order of the 21st century. African people are in the process of changing the African narrative. It is becoming the continent of young people, economic opportunity and free markets. This is the result of the resilience, entrepreneurship and determination of the African people. Despite the absence of significant state support, people throughout the continent are building their futures in an inspired way. They are urbanising and becoming educated, starting businesses and constructively participating in society. As more Africans enter the middle class, we should expect to see this enterprising spirit produce even more gains for the continent and the world.

This determination will be needed as the continent still faces many challenges. African economies must diversify from natural resources and build industrial bases for their large and growing youth populations. Regional cooperation must improve so that market access is granted to more economies. Hundreds of billions of dollars of infrastructure must be built to increase the productivity of local economies. And the improvements in governance, political stability and government representation must endure.

Investec Asset Management is fortunate to play a role in Africa’s evolution. While Investec’s roots are in Africa, the firm has grown into a successful global asset management firm with presence in the USA, Europe, Asia-Pacific and Latin America, where it competes successfully in the institutional market. In spite of this evolution, we remain committed to our original role of facilitating capital movement of both domestic as well as international savings to and from Africa. Over the past 23 years, we have invested in some of the most innovative businesses and resilient countries on the continent. We look forward to playing a constructive role in Africa, both as investors on behalf of our clients, and also as a standard setter and creator of economic opportunities for the communities we serve.

As we look ahead, we are confident that Africa will continue to move ahead. In support of this positive momentum, Africa needs foreign actors to play a positive role on the continent. The relationship between the United States and Africa is vital for the future of this continent. The United States is one of Africa’s largest trading partners, with over $85 billion of goods exchanged each year. Foreign direct investment from the United States into Africa has doubled in the past ten years. American businesses have played a very important role in developing the African consumer, agriculture, infrastructure and other key sectors of the economy.

A nation with deep entrepreneurial energies, a large savings base, and generous people, the United States can play a critical role in accelerating Africa’s catch-up. We are excited to see a renewed interest in Africa from the United States.

Hendrik du Toit
Chief Executive Officer
Investec Asset Management Limited

The US business community is ready for Africa

At the U.S. Chamber of Commerce, our members know that 95 percent of the world’s consumers live outside the United States. As companies pursue new markets, Africa stands out as a major opportunity. Investment is pouring into African markets as capital markets mature, manufacturing advances, and regional communities work to improve physical infrastructure.

The U.S. Chamber’s Africa Business Initiative (ABI) has been supporting American companies doing business in Africa for the last six years. Since ABI’s inception, it has engaged the US business community on policies that foster investment in Africa, facilitate trade between the United States and Africa, and introduce US companies to the continent’s vast economic opportunities. ABI provides its members with access to African and US government officials while offering strategic advisory services for companies doing business in Africa.

Through our extensive work in Africa, it has become increasingly apparent that the continent presents big opportunities for American businesses. The growth seen on the African continent in recent years has been explosive, but only a short window remains for Americans to be among the frontier investors in Africa. Companies from many other countries have already recognised the opportunities that Africa presents, and US companies, in a number of industries, are late to the game. It’s time to change this fact.

As the middle class across the continent expands, demand for high-quality goods and services are increasing. It just makes good business sense to invest in countries that are on the rise. We have long known that international trade creates jobs back at home—in factories, farms, and services. The economic success of African nations should also be a win for the United States. Last but not least, let’s not overlook the benefits that US firms bring when doing business. When partnering with African nations, they are in for the long haul, adding value at all levels of society.

This report, produced in collaboration with Investec Asset Management, identifies some of the common threads we’re hearing from corporate and government leaders who know Africa. We’re in agreement on the key point—the time to do business in Africa is now.

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Thomas J. Donohue  
President and CEO  
U.S. Chamber of Commerce

“Companies from many other countries have already recognised the opportunities that Africa presents, and US companies, in a number of industries, are late to the game. It’s time to change this fact.”
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Hendrik du Toit
Chief Executive Officer of Investec Asset Management

Katherine Tweedie
Executive Director of the Investment Institute at Investec Asset Management

Hendrik du Toit is chief executive officer of Investec Asset Management and a director of Investec plc and Investec Ltd. Hendrik joined the Investec Group in 1991 as a Portfolio Manager and founding member of Investec Asset Management. Under his stewardship, Investec Asset Management grew from a small South African start-up to an international specialist asset management firm entrusted with $123 billion* of client assets. Du Toit holds a MPhil in Economics and Politics of Development from Cambridge University, as well as a MComm in Economics and International Finance (Cum Laude), BComm in Economics honours degree (Cum Laude) and a BComm (Law) from Stellenbosch University. In 2008 Global Investor (a Euromoney publication) named him Asset Management CEO of the Year. In 2009 Hendrik was elected to the board of the UK-based Investment Management Association, an industry association representing investment management firms which collectively manage assets of approximately £2 trillion. In 2011, he was named as one of Financial News’ top 10 most influential individuals in asset management and was awarded the European Asset Management Personality of the Year award by Funds Europe. In 2012, Hendrik was named Chief Executive of the Year at the Financial News 11th Annual Awards for Excellence in Institutional Asset Management. In 2013 he was presented with a special recognition award by Funds Europe, marking his achievements as CEO.

Katherine Tweedie is the executive director of the Investment Institute at Investec Asset Management. In this role she is responsible for providing insight, partnerships and strategic engagement that support investment decision-making across geographies and asset classes. Katherine was formerly the director and head of Africa at the World Economic Forum, with extensive prior experience in private equity and investment banking. She sits on the board of several non-profit organisations. Katherine holds a Masters in Public Administration from the Harvard Kennedy School of Government where she was selected as an Edward S. Mason Fellow and won the Raymond & Josephine Vernon and Lucius N. Littauer Awards for academic excellence and leadership. She holds a Bachelor of Commerce (Hons.) in Finance and Economics from the University of Victoria, Canada.

*Source: Investec Asset Management, as at 30 June 2014
Aniket Shah is an investment strategist at Investec Asset Management. In this role, he serves some of the world’s largest institutional investors in developing long-term investment strategies. He is a member of the firm’s Investment Institute, where he directs research initiatives dealing with macroeconomic developments in both developed and developing markets. Aniket previously worked at the Earth Institute at Columbia University where he served as special assistant to the Director, Professor Jeffrey Sachs. Prior to that, Aniket was an investment banker at Goldman Sachs & Co, where he focused on mergers and acquisitions in the Financial Institutions Group.


James Bailes is an analyst at Investec Asset Management, and is a member of the firm’s Investment Institute, where he deals with Investec’s strategic engagements and directs research in developed and developing markets. Prior to that, James studied at the University of Cape Town and is a graduate from the University of California, Berkeley, where he also won two National Championships in Rugby.
Thomas J. Donohue is president and CEO of the U.S. Chamber of Commerce. Since assuming his position in 1997, Donohue has built the Chamber into a lobbying and political powerhouse with expanded influence across the globe.

Donohue has aggressively advanced The American Jobs and Growth Agenda, a plan that includes opening markets to American goods and services around the world, dramatically expanding American energy production, rebuilding America’s infrastructure, combating an avalanche of new regulations, spurring innovation, and reforming the tax code and entitlements.

Under Donohue’s leadership, the Chamber has emerged as a major political force in elections for the Senate and the House of Representatives. As part of this bipartisan effort, millions of free enterprise activists are mobilised in support of probusiness candidates.

The Chamber has also secured numerous business victories on Capitol Hill, in the regulatory agencies, in politics, in the courts, and before governments around the world.

Previously, Donohue served for 13 years as president and chief executive officer of the American Trucking Associations, the national organisation of the trucking industry.

Scott Eisner is vice president of African Affairs at the U.S. Chamber of Commerce. He represents the Chamber’s interests in Africa through its Africa Business Initiative (ABI), the business community’s leading advocacy group aimed at strengthening U.S.-Africa trade relations. He also heads the Chamber’s U.S.-South Africa Business Council and the U.S.-Côte d’Ivoire Business Council.

Previously, Eisner was head of operations for the Chamber’s International Affairs Division while holding the position of vice president, African Affairs. Before that, he was deputy chief of staff at the Chamber where he oversaw the Executive Office and was the senior staffer to the Chamber’s president and CEO.

Eisner has held a number of leadership roles at the Chamber, including special assistant to the president and CEO and director of programs for the U.S. Chamber of Commerce Foundation, formerly known as the National Chamber Foundation.

Before joining the Chamber, Eisner held positions in the political arena, most notably his work on Sen. John McCain’s 2000 presidential campaign and his re-election to the Senate in 2004.

Eisner graduated with a degree in political science from Pepperdine University in Malibu, California.

He and his wife live in Washington, D.C.
Danielle Walker has worked at the U.S. Chamber of Commerce since 2005. She currently manages the day-to-day operations of the Chamber’s Africa Business Initiative (ABI), which is the business community’s leading advocacy group aimed at strengthening U.S.-Africa trade relations. She works closely with Chamber member companies, business coalitions, AmChams, government leaders, and business executives to achieve their business objectives in this complex part of the world. Walker played an integral role in the establishment of the two bi-lateral business councils that operate under the aegis of the U.S. Chamber of Commerce’s Africa Business Initiative—the U.S.-Côte d’Ivoire Business Council and the U.S.-South Africa Business Council. She serves as executive director the U.S.-Côte d’Ivoire Business Council and is a part of the leadership team managing the U.S.-South Africa Business Council. Walker has a master’s degree in political management from the Columbian College of Arts and Sciences at The George Washington University. She graduated from Louisiana State University with a B.A. in political science.
List of Contributors:
External Experts

Mimi Alemayehou
Executive Advisor & Chair of Blackstone Africa Infrastructure

Mimi Alemayehou is executive advisor and chair of Blackstone Africa Infrastructure. She served as executive vice president of the Overseas Private Investment Corporation (OPIC) from 2010-2014. At OPIC, the US Government’s Development Finance Institution, she managed an $18 billion portfolio of financing and insurance in support of private sector investment in emerging markets. Previously, Mimi served as the US Executive Director at the African Development Bank where she was responsible for executing board decisions on behalf of the United States Government. As the most senior US Treasury official in Africa, Mimi was instrumental in pushing the bank to become more transparent and more broadly engaged with outside stakeholders. Mimi is a naturalised US citizen; she was born in Ethiopia and spent her early years in Kenya before emigrating to the US. In 2013, she was recognised by Forbes as one of 20 Young Power Women from Africa.

Alan Davies
Chief Executive of Diamonds & Minerals of Rio Tinto

Alan was appointed Rio Tinto’s chief executive, Diamonds & Minerals in 2012. He joined the Group in 1997 and has held management positions in Australia, London and the US for the Iron Ore and Energy businesses. Prior to his current role, Alan was president of international operations for Rio Tinto’s Iron Ore business with global accountability for operations and projects in Canada, India and Guinea. Alan is a Fellow of the Institute of Chartered Accountants in Australia. He was a director of the Art Gallery of Western Australia from 2010 to 2011.
An entrepreneur and philanthropist born, raised and educated in Africa, Tony Elumelu has been responsible for creating businesses across the continent, in sectors critical to Africa’s economic development. He serves as chairman of Heirs Holdings Limited, as well as its affiliate company, Transcorp, a publicly quoted conglomerate, and is the founder of the Tony Elumelu Foundation; an organisation dedicated to catalysing entrepreneurship across Africa. Tony presently serves as a member of the USAID’s Private Capital Group for Africa Partners Forum. He sits on the Nigerian President’s Agricultural Transformation Implementation Council and serves as co-chair of the Aspen Institute Dialogue Series on Global Food Security. He also serves as the chairman of the board of directors of African Eagle Resources PLC, which is listed on both the London and Johannesburg Stock exchanges.

Carl Fleming represents clients in major international transactions and international policy matters, including transactions in more than 15 countries across Africa. He advises US, European and African companies, private equity funds and governments in connection with project financings, infrastructure development transactions, energy transactions and equity acquisitions and sales. Prior to joining Akin Gump, Carl worked for the US government at the Millennium Challenge Corporation (MCC). There he served as a senior international attorney, advisor to the US President’s senior advisor to MCC and diplomat. He has developed, negotiated and implemented large-scale international development agreements (compacts) directly with foreign states to open markets in such regions as sub-Saharan Africa, North Africa and the Middle East.
Currently the president and chairman of the US Export-Import Bank, Fred Hochberg can draw on extensive experience in various leadership roles from government bodies to non-profit as well as academic organisations. As head of Ex-Im Bank, Fred plays an essential role in President Obama’s plan to double US exports by the end of 2014. From 2004 to 2008, Fred was dean of Milano, the New School for Management and Urban Policy in New York. From 1998 through 2001, he served as deputy, then acting administrator of the Small Business Administration (SBA), where he quadrupled lending to minority and women-owned small businesses. Prior to his service at SBA, Fred was the long-time president and chief operating officer of the Lillian Vernon Corporation, where he led the transformation of a small, family mail order company into an international, publicly-traded direct marketing corporation. Fred received his undergraduate degree from New York University and his MBA from Columbia University.

Donald Gips is currently a senior counselor at the Albright Stonebridge Group and a senior advisor to the Blackstone Group. He is a former US ambassador to South Africa appointed by Barack Obama in June 2009. He was recently recognised for his efforts to promote improved relations with South Africa when the US State Department chose him as the recipient of the 2010 Sue M. Cobb Award for Exemplary Diplomatic Service. Before being asked to be President Obama’s personal representative to South Africa, he was a leader on the Presidential Transition Team and then served in the White House, where he ran the office of Presidential Personnel, overseeing the selection of several thousand political appointments for the Obama administration. Donald previously served in the White House during the Clinton administration, working as chief domestic policy advisor to vice president Al Gore. Donald received an MBA from the Yale School of Management and received his undergraduate degree from Harvard University.
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Kola Karim is group managing director and chief executive officer of Shoreline Energy International, a leading energy and infrastructure company focused on Africa. Kola’s current portfolio focuses on the construction, commodity trading, catering, entertainment, agro-allied products, oil and gas, engineering and power sectors. In addition to his role at Shoreline Energy International, Kola is chairman of Costain West Africa, chairman of the board of directors of African Eagle Resources PLC and serves as director in seven subsidiary companies, including Schlumberger Testing & Production Services Nigeria and Trans Amadi Facilities, and is chairman of Nigerian Ropes. He is also a member of the Institute of Directors in Nigeria. Kola has delivered numerous papers at international conferences and investment forums and has participated in a number of courses, including management and leadership programmes at the Harvard Business School and John F. Kennedy School of Government.
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Nicky was a World Economic Forum Global Leader of Tomorrow in 2003 and, in the same year, South Africa’s Businesswoman of the Year. In 2006, she spent 5 months at Yale University as a Young Global Leader.

Nik Nesbitt is the country general manager of IBM East Africa. Previously, Nik was the founder and chief executive officer of KenCall and has also held various executive roles in markets across Africa, North America and Europe. He holds an engineering sciences degree from Dartmouth College as well as a Masters in Engineering and Business Administration from Thayer College and Stanford University, respectively. Prior to starting KenCall in 2002, Nik had already demonstrated his passion for entrepreneurship by founding other companies; he held senior executive positions in the US at Qwest Communications, Rhythms, US WEST and Square D and began his career as a management consultant at Boston Consulting Group. He has been frequently quoted and profiled in leading global and regional media as an industry leader and visionary and is often invited to be a regular speaker and panelist at conferences in Kenya and across the globe. He is also a member of the Young President’s Organisation (YPO) in Nairobi.
Michael Philipp currently serves as chairman of Reykjavik Geothermal and chairman and managing partner at Ambata. Michael has held senior management positions across the financial services industry for the past 25 years. From 2004 to 2008 Michael served as chairman and chief executive officer of Europe, Middle East and Africa, the chairman of Environmental Business Group, and a member of the executive board of Credit Suisse (CS). Prior to Credit Suisse, Michael was at Deutsche Bank (DB) where he held many positions including, chairman and CEO of Deutsche Asset Management, global head of equities and head of Global Market Sales. Michael also served as a member of the Board of Managing Directors (Vorstand), responsible for Middle East and Africa. Michael has been influential in the expansion of major banking institutions into the Middle East and Africa. While at Credit Suisse, he established the CS office in the Dubai International Financial Centre (DIFC) and started CS’s operation in Saudi Arabia, Credit Suisse Saudi Securities. Michael expanded CS’s business into Africa through a joint venture with Standard Bank. In addition during his tenure at Deutsche Bank, DB acquired Ivor Jones, Roy & Co., establishing Deutsche as the leading investment bank in South Africa.

Mark Pittman is a senior managing director and heads Allstate’s Public Asset Group. In this role, Pittman oversees all public fixed income and equity strategies as well as tactical asset allocation. He also serves as a member of Allstate’s Investment Management Committee, Investment Strategy Committee, Asset Allocation and Economic Committees and AIMCO board. Allstate’s public fixed income portfolio includes allocations to corporate debt (investment grade and high yield), municipal debt (taxable and tax-exempt), mortgage, asset-backed securities, emerging markets/foreign, US government and agencies, bank loan and collateralised loan obligations. Equity strategy includes domestic, developed foreign and emerging market exposures managed both internally and externally.

Pittman joined Allstate in 2001 as a senior portfolio manager in the Credit group. He has more than 23 years of experience managing portfolios for mutual funds, pension, endowment and insurance clients. He has both a bachelor's degree and an MBA in finance from the University of Wisconsin at Madison and is a CFA Charterholder.
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Johan was born in Pretoria, South Africa and raised in the mid-western corn belt of the country. He graduated from the University of Pretoria in 1993 with a Bachelor’s degree in Accounting. He completed his honours degree via the University of South Africa and qualified as a chartered accountant in 2000.

Dr. Christo Wiese is the chairperson and controlling shareholder of Pepkor Holdings (Pty) Limited and Shoprite Holdings Limited, respectively. Africa’s largest clothing and food retailers with a combined footprint across sub-Saharan Africa and beyond, and a total portfolio of approximately 6000 stores in 21 countries and employing more than 150,000 people. He has numerous other investments and interests, including a controlling stake in Brait SE (an investment holding company), Tradehold Ltd (UK based property investment company) and Invicta Holdings Ltd (a significant player in the South African agricultural and earthmoving equipment, bearing, transmission and industrial equipment industries). Dr. Wiese owns Lourensford Wine Estate, a producer of internationally acclaimed wines, located in one of South Africa’s top wine producing regions and he is owner of a game reserve (140,000 acres) in the Kalahari. One of Africa’s four wealthiest business personalities, he is married to Caro and they have one son and two daughters, who are all involved in the family’s various business interests.
Executive summary

► Investec Asset Management, through its Investment Institute, and the U.S. Chamber of Commerce collaborated on this report as both our institutions believe that there is a new era of US-Africa relations on the rise. We felt it was important to draw together a diverse set of perspectives to illustrate how the US and African nations are forging increasing political, economic and investment ties in light of other major players from China to Brazil, Europe to India actively doing the same.

By now, Africa’s past growth story is well-known. From Nigeria to Ethiopia, Angola to Ghana, the continent has had an extraordinary decade of development. Growth is not just about resources. Africa’s emerging consumer class is creating significant demand for goods and services at all levels, from luxury brands to consumer staples. Current estimates are that consumer spending across sub-Saharan Africa will expand from $600 million in 2010 to $1 trillion by 20201. The rapid pace of technological diffusion is also creating new opportunities for entrepreneurship in the most unlikely of places.

Today, the question of why Africa matters is not up for debate. However, the question that does remain – for US business leaders and investors – is how to navigate the opportunity set. With 54 countries, 29 stock markets, 15 bond markets and an expanding universe of public and private businesses, investors have a growing number of avenues to participate in the continent’s transformation. Distinguishing between the opportunities and fully understanding the risks will matter even more as market forces continue to expand throughout the continent.

The nature of the US’s relationship with Africa is changing, largely driven by private sector investment and the growing presence of US multinationals such as IBM and GE which are expanding local operations in many Africa hubs from Kenya to Lagos to Johannesburg. A growing number of multinationals are keen to capitalise on Africa’s significant growth potential in the coming years, particularly when growth in traditional developed markets have proved to be more challenging in recent years. The US public sector engagement is also changing substantially from a traditional aid focus to one that is much more focused on public-private partnerships. In addition to promoting trade and investment through policies such as AGOA, the Obama administration has targeted infrastructure investment as one of its primary avenues for collaboration in the coming years. This is no surprise, given that Africa requires over $100 billion of productive infrastructure investments – in power, construction, water and more – per year for the next decade. In particular, solving the power deficit is at the centre of most African government and business discussions. President Obama’s Power Africa initiative is a concerted initiative to bring public and private investors together in an effort to make a big leap forward in this arena.

While US-Africa trade totalled $85bn in 2013, it is not alone in its growing relationship with Africa. Over the past decade, China-Africa trade has grown at a staggering rate to a total of $210 billion in 2013, with China eclipsing Europe as Africa’s largest trading partner. In addition, over 2,000 Chinese enterprises have invested in Africa to date and stock of China’s direct investment in Africa was estimated at $20 billion by the end of 2012. On his recent visit to Africa, Chinese Premier Li Keqiang re-emphasised the strength of China’s ties with Africa, promising to more than quadruple Chinese investment on the continent to $100 billion and double trade volumes between China and Africa to $400 billion by 2020. On his recent trip, Li spoke of the necessity for China to support inclusive growth and development within its African counterparts and outlined specific commitments to support infrastructure development, healthcare, wildlife conservation efforts and skills capacity building initiatives.

1Source: Standard Chartered Bank
Given Africa’s rapidly changing environment and the nature of its relationships with various global partners, this report outlines some of the ways the US-Africa engagement has the potential to deepen given the dynamics outlined in depth by our contributors as well as the following:

- Africa is well positioned to capitalise on the benefits of regional integration by addressing tariff levels, removing non-tariff barriers, developing transport infrastructure, and fixing the power network. The three major regional economic communities in sub-Saharan Africa – ECOWAS in West Africa, the EAC in East Africa, and SADC in South Africa – will be the vehicles through which additional integration initiatives across the continent are driven.

- The youth bulge across Africa will necessitate rapid growth in sectors such as housing, education, food and jobs. Agriculture, power, and water will continue to provide huge investment opportunities. The growth of the middle class will be strong and the biggest growth of Africa will likely occur later this decade, as infrastructure improves and regional integration solidifies.

- International businesses need to have a local presence in Africa. Companies will need to partner with local governments and remember that governments will welcome businesses that will put presence on the ground and create jobs.

- There is huge potential in Africa, but investors and companies need to understand the different dynamics in each market.

Katherine Tweedie
Executive Director
Investment Institute at Investec Asset Management ■

“Today, the question of why Africa matters is not up for debate. However, the question that does remain – for US business leaders and investors – is how to navigate the opportunity set.”
What do you think about the business opportunity in Africa over the next 10 to 20 years? What regions and sectors are the most attractive?

The great thing about the potential in Africa is the diversity. There isn’t one Africa. There are 54 different markets, each with its own opportunities and challenges. Hopefully, we’ll start to break down those barriers so that elements, such as the East African Community – which have a head start – start to be a bigger market. But right now, as investors and companies look at Africa, they need to understand the different dynamics in each market.

Infrastructure is obviously incredibly important, but so are consumer groups. You can serve the bottom of the pyramid as well as the top, given the fact that high-end luxury goods are doing very well. The most expensive luxury brands in the world are all opening stores in Lagos right now. If you drive around Cape Town and Johannesburg today, you will see Ferrari and BMW dealers. When we’re talking about the middle class in Africa, it’s not high-end goods – in fact, it’s quite low end. That offers a significant opportunity.

Agriculture, as a sector, is critically important to Africa’s future. Agricultural productivity is much below where it should be. There are great opportunities to improve that. Power is another great sector to be investing in. Water, I think, will be the next great opportunity in Africa, with huge opportunities for companies.

What do you mean by water as being the next power?

The ability to provide clean water for drinking, to build irrigation systems that work, to counteract the challenges brought about by climate change – all of this requires new investments in the water sector. If you believe in the climate change predictions, which I do, large parts of Africa are going to become arid. We will need solutions to provide water both for irrigation and for drinking.

Take South Africa for example; the water system is incredibly overburdened, but it was built 20 to 25 years ago. There’s going to be a large maintenance and upgrade opportunity that’s going to run into billions of dollars.

What are the opportunities in Africa?

For US companies that focus on sectors such as power, water, transport, and tourism; there is an opportunity to bring a technical and strategic competence to Africa. And this will be a ‘win-win’. American businesses will be welcomed. And if they find one country is not interested, they’ll find another one that is.

If you look at the African continent, the biggest opportunity and the biggest challenge will be the youth bulge. As the former president of Nigeria, Olusegun Obasanjo says: “This will be either the great demographic dividend or the great demographic disaster”. Think about everything that the youth bulge is going to need: housing, education, food and jobs. Those are all sectors that are going to grow and grow.

What is the biggest mistake that you’ve seen American businesses make when they enter Africa?

I’ll flip the question around and I’ll steal a quote from somebody else: “To do business in Africa, you need the three Ps. You need Passion, so you’ve got to believe and be willing to make that investment. You need Patience because it’s not going to be quick. Finally, you need a Plan B, because whatever you think your plan A is, you’re going to be surprised. Too many American companies haven’t had the combination of the three Ps. Ultimately, what is needed is the staying power to make the investment and to put people on the ground and to see the potential.

While doing business in Africa is risky, the risk premiums that people are putting on doing business in Africa are out of kilter with that risk. The risk premium is too high, given the degree to
“American businesses will be welcomed. And if they find one country is not interested, they’ll find another one that is.”

which the fiscal situation has improved in many African countries and the positive improvement in democracy, despite the hiccups. Things are definitely on the right trajectory.

What has been the reception of American businesses by African governments and are they welcoming to large American companies that are coming in?

Let me first repeat – there is no single answer for Africa. It varies country by country. However, if you want to look more generally, here are a few observations. I think there’s been an easier affinity in the English language speaking countries than French. Now, it doesn’t mean there aren’t American companies doing well in French-speaking regions, but it’s just been slower. But, most importantly, it depends on the approach that the company takes. As a former policymaker, I see this tension between the African governments wanting localisation in their market and US companies and government officials wanting stuff to be made in our market.

Finding that win-win is what really matters. Whether it’s Ford building cars in Africa, but with a plant in Kansas City that actively provides the parts, or General Electric building locomotives in Pennsylvania and then assembling in South Africa. If you’re going to come into an African market and say “I just want to sell my goods”, you’re going to have a harder time unless you’re putting presence on the ground, creating jobs, showing them why this is good for the country. In South Africa, most people think that KFC is a South African company.

Can you talk about some of the major initiatives that the US government is doing right now in Africa? How do you see those initiatives playing out?

There’s always been an interest on the part of the US government. The African Growth and Opportunity Act (AGOA) was created by Bill Clinton in 2000 and it’s been supported on a bi-partisan basis. We need to make sure that AGOA achieves its full potential, both for Africa and for American business. We must think through what this next round of AGOA will look like in terms of making sure there is a level playing field and helping development in Africa.

And then you look at things like the Millennium Challenge Corporation and the President’s Emergency Plan for AIDS Relief (PEPFAR) that president Bush created. I think there’s a rich legacy of the US focusing on Africa. The shift now is to understand how to leverage the private sector capability more. That’s really what is behind Power Africa.
So the game plan is: invest dollars, get facilities built, and use the US government to work with African governments to get to that point. The real question is, how do you create the conditions so that investment can happen? That is why President Obama is putting forward the US-Africa Leaders Summit – to try and bring together African and US businesses. This is the first time such an event has ever happened.

Can you talk about your thoughts on the nature of conflict in Africa?

My dear friend, Johnnie Carson, who was our assistant secretary for Africa, has been watching Africa for way longer than I know. He said to me: “If you look at the snapshot of Africa, you can find lots of upsetting pictures. But if you watch the movie, it’s one of the more inspiring stories you’ll ever see”.

So today, we can look at the DRC, Sudan, Central African Republic, Northern Africa and groups like Boko Haram and get depressed. But we can also look at Mozambique and Angola – two countries that have recovered from civil wars and now attract significant investment. We can look at Senegal, which has had an amazing transformation and successful election.

It’s not to say the challenges aren’t still there. These are young, fragile democracies. Think about the struggles we still go through to try and perfect our democracy. These democracies in Africa are in the first innings of their game.

How do you see the process of job creation happening in Africa?

This is the single biggest unanswered question for Africa and the world. Today, there’s a big open question around the future of middle class jobs. Wage rates are lower in Africa than they are in the United States, so things that make sense to automate in the US, may not be there in Africa yet. But where do you go from there? The debate over mechanisation and automation is focused on the US as of now. The trouble is that we don’t even know what is going on here in the US, so it’s hard to extrapolate to Africa. This is why I started with agriculture as being a key sector for Africa. It is going to be a long time before Africa automates those jobs.

As an example of how this may play out, let’s look at South Africa. You watch what’s going on with the labour situation with an industry, such as mining, which is highly labour intensive. But, because wages are rising, chief executive officers are saying: “let’s replace them. Let’s either shut the mine down or let’s automate.” And so jobs are going down at a time when miners don’t really have enough to live on as it is. It’s a very challenging dilemma, and applies to countries throughout the continent that have vast resources of cheap labour, such as Nigeria.

At the same time, there are certainly industries that you can count on that aren’t going to be automated soon; tourism, agriculture, parts of the garment and textile industry, for example. But the textile industry in South Africa can’t survive and it’s been declining every year, to Chinese imports and also it’s cheaper to go to Bangladesh because labour is cheaper.

How do you see the US role in Africa compared to that of China, India and other major actors?

I used to get this question all the time when I was Ambassador. Africa needs China, the US, the Middle East, India and others. The investment opportunities are large enough that it’s going to take all of our efforts.

And Africa needs us all to compete against each other. Because they need to keep each side honest.

When African leaders go to their summit in China, it’s led by the Chinese government. It’s very much about governments creating a relationship. What I hope the African leaders will see, when they come to the US, is that it’s a very different model. We’re private sector, and NGO-led; government can play a facilitation role. I think that’s why Power Africa’s so
important, because it shows a model that says that the strength of the US is not our State Department or Agency for International Development, but our private sector. If we’re doing our jobs well in those government agencies, we’re unleashing the job-creating potential of our businesses, innovation-creating potential of our universities, generosity and community of our churches and aid groups. All of this is done to build the needed infrastructure. It’s more chaotic, but out of that you get the richness and diversity that’s been the hallmark of what America stands for. Africa should take advantage of the more state-driven approaches of China and the more entrepreneurial energy of the US.

As you reflect on your work as ambassador and your ongoing work on the continent, what’s a personal memory or interaction you had that stays with you?

The first time I met Nelson Mandela was with Al Gore. To sit in a room with two Nobel Peace Prize-winners and listen to them share stories was unforgettable. I then met Mandela again with secretary Clinton. It’s a magical thing to think about how Mandela transformed Africa. I wear a bracelet with his prisoner number on my wrist every day to remind me to be a better person. Even though he was in his last years of his life, moments of getting to spend some time with him are probably the most inspiring memories.

“And Africa needs us all to compete against each other. Because they need to keep each side honest.”

Donald Gips
Africa: the case for sustainable growth

Classical economic theory: factors of production, low-base effects and African economic growth

The improving economic performance of the African continent has been widely discussed in recent years. Government officials, business leaders and investors alike are increasingly enthusiastic about a number of factors that are expected to support growth for decades to come, particularly in sub-Saharan Africa. We share this view and as experienced investors in Africa, see increasing opportunities for generating exceptional returns in this environment. For many observers of these developments, the key question is: how sustainable is African growth?

As experienced investors in Africa, we see increasing opportunities for generating exceptional returns

We frame the arguments in this paper in terms of classical economic theory where total value added is stated as a function of factors of production: land (or natural resources more generally), labour, capital and productivity. There is very little that policymakers, individuals and businesses can do in the short to medium term to affect the supply of labour and natural resources in an economy. However, as we demonstrate in this paper, Africa’s resources are set to expand, thanks to its stock of uncultivated land and the ongoing discovery of new subsoil resources. The continent is also expected to see substantial increases in its already significant reserves of labour due to its exceptional demographics.

The policy, political and economic environment does, however, have a significant bearing on capital and productivity – both of which determine the efficiency and effectiveness with which labour and resources are combined. Given capital and technology’s sensitivity to these environmental factors, it is not surprising that Africa has historically been deprived of these two essential factors of production. The fundamental argument of this paper is that we believe that a number of reinforcing factors are making Africa an increasingly attractive destination for both capital and technology. This, combined with the continent’s abundance of labour and resources, lays the foundations for a period of sustained economic growth.

A number of reinforcing factors are making Africa an attractive destination for both capital and technology

One final observation from classical theories of economic growth is the potential for rapid ‘catch-up growth’ or, in technical terms, convergence. Growth theory suggests that economies where the factors of production are in short supply can enjoy rapid rates of growth, because the marginal return on these factors – labour, natural resources, capital and technology – is much higher than in developed economies. These arguments are reflected in investors’ emphasis on low-base effects. The following factors are pervasive across frontier markets: low penetration in formal goods and services sectors; low levels of household, corporate and sovereign debt; nascent investments in infrastructure and regional integration; and raising household income above the poverty line and subsistence levels.

Discerning investors can generate competitive investment returns by funding African sovereign and corporate growth at sensible entry points across the capital structure

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1 Investec Asset Management has invested in Africa for more than two decades and today has African investment strategies across the capital structure in fixed income, credit, public and private equity.

2 The classical economists Adam Smith and David Ricardo identified land, labour and capital as the factors of production. Modern growth theories in the classical vein, have added technology, entrepreneurship and human capital to this list, which can be summarised as ‘productivity’ – the fourth factor of production. Land is also today understood more broadly as natural resources above and below the ground.
Chris Derksen, Investec Asset Management’s Head of Frontier and Emerging Markets, explains the significance of sustained economic growth to investors in Africa: “In our view, discerning investors can generate competitive investment returns by funding African sovereign and corporate growth at sensible entry points across the capital structure. The required perspective to make these investments comes at the cost of a long-term commitment to understanding the local nuances of a diverse continent. It is therefore not growth per se, but a conviction that growth is sustainable which forms the basis of our commitment. Given its scale, diversity and stage of development, Africa will always attract its fair share of headlines. But our conviction around Africa’s potential reflects a long-term view.”

Land, physical resources and labour: Africa’s wealth of essential factors of production

Africa is widely regarded as a resource-rich continent. As shown in Table 1, the continent holds significant reserves in some of the world’s most important industrial commodities. However, these proven reserves are likely to represent only a fraction of Africa’s total resource wealth: the value of proven subsoil assets per square kilometre in the OECD is roughly five times that of Africa.3 This large gap has nothing to do with geological differences, but is rather due to the low historic levels of investment in prospecting in Africa, given the historical uncertainty around the security of property rights. This is clearly changing due to the more stable political and economic environment. For example, in Kenya, Tanzania, Uganda, Ghana, Namibia and Mozambique, prospecting and new resource discoveries have risen sharply over the past decade and are set to continue for decades to come. These countries are all new resource players in sub-Saharan Africa, joining the ranks of Nigeria, Angola and Zambia as major global commodity producers. In addition to subsoil assets, Africa is home to almost 70% of the world’s remaining uncultivated arable land – a key resource in a world characterised by growing concerns over food security due to rising populations, income and climate change.

Africa is home to almost 70% of the world’s remaining uncultivated arable land

Table 1: Africa’s estimated share of global commodity reserves

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Share of global reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum Group Metals</td>
<td>95%</td>
</tr>
<tr>
<td>Phosphate</td>
<td>81%</td>
</tr>
<tr>
<td>Diamonds</td>
<td>58%</td>
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<tr>
<td>Cobalt</td>
<td>49%</td>
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<tr>
<td>Chromium</td>
<td>43%</td>
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<tr>
<td>Manganese</td>
<td>28%</td>
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<tr>
<td>Bauxite</td>
<td>27%</td>
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<tr>
<td>Gold</td>
<td>15%</td>
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<tr>
<td>Oil</td>
<td>8%</td>
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<tr>
<td>Gas</td>
<td>7%</td>
</tr>
<tr>
<td>Copper</td>
<td>6%</td>
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</tbody>
</table>

Sources: BP, Credit Suisse and USGS, September 2013

3 The average kilometre holds around $125 000 in subsoil assets in the OECD and $25 000 in Africa. This point has been repeatedly emphasised by Paul Collier, Professor of economics at the University of Oxford and renowned expert of natural resources and African development.
The impact of demographics

From a potential economic growth perspective, Africa has exceptional demographics. As has been widely discussed, Africa has only just embarked on what will be a multi-decade demographic boom. The projected growth rate of the African working-age population from 2010 to 2020 exceeds that of other high-growth regions and countries, such as China, India and Latin America & the Caribbean (see Figure 1). As soon as 2020, the African working-age population will start to rival that of India and China. By 2050, the African labour force will be by far the largest in the world at around 1.3 billion working-age people.4

This growth in the labour force will have a positive effect on Africa’s dependency ratio – the ratio of dependants (children and the elderly) to working-age people. As shown in Figure 2, Africa’s current dependency ratio is exceptionally high and is one of the causes of structural poverty. However, the demographic boom that has begun in Africa will result in a rapid decline in the dependency ratio. Demographic booms, such as the one that has only just started in Africa, typically last for several decades and have historically been associated with rapid growth. They make the emergence of a labour-intensive manufacturing sector possible and support the creation of domestic consumer and savings pools.

Figure 1: The demographic boom in Africa: a rapidly growing labour force

Source: IMF and World Bank

As soon as 2020, the African working-age population will start to rival that of India and China

4 The African labour force is expected to overtake that of China and India around 2035. The European and Chinese labour force actually starts to rapidly decline after 2020.
The demographic boom that has begun in Africa will result in a rapid decline in the dependency ratio

![Figure 2: Africa’s improving dependency ratio (%)](source: United Nations)

Productivity and capital: self-reinforcing drivers of greater efficiency

As mentioned earlier, we believe that a number of self-reinforcing growth drivers are at work in Africa that are contributing to the effectiveness and efficiency with which the continent harnesses its abundant labour and resources. These factors and their reinforcing nature, illustrated in Figure 3, suggest that the growth dynamic that has emerged in Africa over the past decade is sustainable and has only just started.

![Figure 3: Africa’s reinforcing drivers of growth](source: Investec Asset Management)

i. Improving governance: the rise of peace, accountability and the rule of law

Over the past decade, the African continent has seen higher GDP growth than any other continent, except for Asia. This growth performance has been resilient too. Since the start of the global financial crisis in 2008, Africa has maintained its growth trajectory and outperformed the developed world and most other developing regions.

Over the past decade, the African continent has seen higher growth than any other continent, except for Asia

We regard the considerable improvements in peace and security, and the increase in the number of elected governments in Africa as one of the catalysts for this economic growth. Sceptics point out that corruption remains pervasive in many countries, while episodes of violence and conflict (for example,
Egypt 2011 and 2013) and electoral controversy (for example, Kenya 2008, Zimbabwe 2008 and 2013) continue to make headlines internationally. While we recognise the seriousness of these events and their potential impact on the respective local economies, it is important not to lose sight of the bigger picture on the continent. Over the past three decades, there has been a decrease in both the scale and prevalence of civil conflict, matched by an attendant rise in elected governments and peaceful transfers of power.

Historically, the absence of political stability and reliable legal institutions that enforce property rights has been a major obstacle to investment and economic development in Africa. Violent conflict and civil war exact enormous costs: directly, through the funding of conflict; and indirectly, by deterring investment, shortening political horizons and requiring post-conflict reconstruction. Finally, unelected governments and dictators are typically less responsive to the needs of citizens. They are less concerned with implementing sound policies and generating economic growth in order to be re-elected, and more likely to loot the little investment and capital their countries are able to attract.

Although pockets of the continent still face violence, unrest and authoritarian rule, there have been significant improvements in terms of both the prevalence of conflict and the extent to which governments are democratically elected. As shown in Figure 4, some episodes and areas of conflict remain, but the scale and incidence of conflict are nowhere near that of the 1970s, 1980s or even the 1990s.

There have been significant improvements in terms of the prevalence of conflict and the extent to which governments are democratically elected.

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**Figure 4: From conflicts to constitutions**

![Map showing conflicts and constitution periods](image)

Source: Investec Asset Management and Institute for Justice and Reconciliation for current updates.

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5 The identification of areas of conflict naturally requires a degree of subjective judgement. In these graphs, areas of conflict indicate countries with widespread civil conflict (involving the majority of the country for a protracted period of time) and/or government by unelected authoritarian or military rules. The 2013 graph applies to October 2013.
In a very tangible sense, the improvement in governance – even if this is also off a low base – is having a real impact on much-needed infrastructure spending and development at the local and city administrative levels. One striking example is Lagos, Nigeria’s booming economic hub. “Lagos is an exciting place to visit these days,” says Roelof Horne, Investec Asset Management’s Portfolio Manager in the Frontier and Emerging Markets Equities team. “The turnaround in recent years has been remarkable. There are cleaning teams on roads, street and highway signage, traffic lights with countdown LED screens and bus lanes. We’ve also seen the removal of informal trading shacks from street verges to promote traffic flow. These are all very visible signs of the underlying, broader improvement in state governance. Lagos needs a lot more development, but the change for the better in the last four years gives me confidence that the city is on the right track.”

Nigerians have been coming home in droves, equipped with exceptional qualifications, skills and a wealth of experience

Nathaniel Micklem, an analyst in Investec Asset Management’s Africa Credit team, argues that one of most important drivers of improved governance, both in the public and private domain, has been the reverse of the ‘brain drain’ that plagued Africa in the second half of the 20th century. “Prior to the end of the military regime in 1999, there was a significant brain drain that took place as Nigeria’s youth left the country to pursue education and opportunity in the West. Since the return of order and the onset of strong economic growth, Nigerians have been coming home in droves, equipped with exceptional qualifications, skills and a wealth of experience,” he notes. While living in Lagos, Micklem was able to observe first-hand how this positively affected the quality of public institutions and private businesses in Nigeria. “Local institutions have been bolstering their middle and senior management tiers, targeting this skilled workforce as they return home. They bring with them global best practice not only in the form of technical expertise, but also an increased focus on governance and execution.”

ii. Improved macroeconomic stability

An environment that better promotes governance and the rule of law enabled one of the most important changes on the continent from an investor perspective: the implementation of dramatically improved monetary and fiscal policies. This has contributed significantly to macroeconomic stability, which is a precondition for growth.

The improvement in long-term government debt dynamics has been profound. The combination of higher growth, improved tax revenue collection, better cyclical fiscal policy and selected debt write-offs has resulted in much improved debt-to-GDP ratios for sub-Saharan African countries in recent years. Figure 5 shows that as the aggregate GDP of the African continent has increased (while the stock of debt remained fairly stable), the debt-to-GDP ratio has fallen dramatically since the late 1990s.

Figure 5: Improved debt-to-GDP dynamics

![Graph showing improved debt-to-GDP dynamics](chart)

Source: IMF
There have also been significant improvements in monetary discipline across Africa, particularly in key investment destinations on the continent. As shown in Figure 6, both the level and the volatility of inflation have steadily decreased since the early 1980s. Today, single-digit inflation is the norm in most African markets and central banks are typically quick to react to the emergence of price spirals by raising interest rates. Along with the improvements in peace and political accountability, the era of financing governments (or conflict) through the printing press has passed.

These trends have made it possible for African governments to finance much-needed long-term investment projects and government spending on a far more sustainable basis. “The achievement of greater monetary and fiscal stability in key African markets is a welcome break from the past,” notes Antoon de Klerk, Portfolio Manager in Investec Asset Management’s Emerging Market Fixed Income team. “It’s enabled African governments to come to the international bond markets with much more credibility. They’re paying rates on this debt that were unimaginable, little more than a decade ago. We’ve seen countries that many outsiders wrote off entirely come to the market successfully for the first time and issue debut global bonds.”

Greater monetary and fiscal stability has enabled African governments to come to the international bond markets with much more credibility.

Figure 6: Lower and more stable inflation since the 1980s

Source: IMF
iii. Better management of resources and resource revenues

While Africa has an abundance of natural resources, including land, water, natural gas, oil and numerous minerals, we believe that commodities are only a part – and often a small part – of the African growth story of the past decade. That said, there is no doubt that the continent’s rich endowment of natural resources will play an important role in its economic fortunes over the coming decades. Political and macroeconomic stability has been critical in improving the management of volatile resource revenues and attracting new investors and prospectors to the sector.

History shows that the management of resource-based economies and government income from taxes, duties and royalties on resource extraction is fraught with difficulties. A number of African countries have historically battled with these challenges. However, political and policy improvements have also contributed to better management of resource revenues on the continent. Governments have generally become more transparent and consistent with regard to the taxation of mining and resources companies. They tend to follow a more prudent, countercyclical and forward-looking approach when making use of these revenues. There is clearly much more to the African growth story than just commodities. However, the continent’s natural resource wealth remains critical to support export earnings, attract foreign investment and finance long-term public investment in infrastructure. Sub-Saharan Africa’s exports have grown by 11% per year since 1995, a period during which crude oil and petroleum derivatives alone accounted for 65% of all exports.

Africa’s resource wealth is also one of the main reasons the continent has attracted significant foreign direct investment in recent years, with private investment flows to Africa rising steadily since the turn of the century. The bulk of this investment has come in the form of foreign direct investment (FDI), rather than more short-term flows into bond and equity markets. In recent years, the continent has been attracting $30 billion to $40 billion annually in foreign direct investment. The combination of improved politics, a more stable macroeconomic environment, new discoveries and better management of resource revenues suggests that a larger share of these revenues can be diverted to the financing of much-needed infrastructure investment.

The new oil and gas discoveries in East Africa have added another dimension to an already compelling economic story

These trends are best illustrated by the energy and investment boom that has started on the East African coastline. Joseph Rohm, Portfolio Manager in Investec Asset Management’s Frontier and Emerging Markets Equities team, notes that this region is “fast becoming a major energy hub with significant discoveries of gas and oil in Mozambique, Tanzania, Uganda and most recently Kenya”. The new oil and gas discoveries in East Africa have added another dimension to an already compelling economic story. “The region remains largely underexplored. Fewer than 500 wells have been drilled in East Africa, compared with some 20 000 in North Africa and nearly 15 000 in the west of the continent. Moreover, the expected capital expenditure to develop the resources in Tanzania and Mozambique represents multiples of current GDP. For example, Mozambique has an annual GDP of $13 billion and it is projected that the country will spend $25 billion on developing its gas infrastructure over the next three years.”

iv. Infrastructure development

Political and economic stability, increased capital inflows, as well as rising and better-managed resource revenues present a historic opportunity to address Africa’s enormous infrastructure backlog. Recent developments in infrastructure on the continent have mainly focused on transport
infrastructure, for example building roads, rail and ports around natural resources. However, these initiatives need to be complemented by investment in power, telecommunications, water and sanitation – all of which are particularly important, given the rapid rates of urbanisation. There has been some progress on this front, as can be seen in Figure 7 which shows the growth in electricity production. However, for Africa to realise its potential, significant further investment and development will be required.

Figure 7: Electricity production in sub-Saharan Africa (kilowatts per hour, 1980 = 100)

Successful ‘catalytic investments’ in infrastructure will raise productivity and further enhance Africa’s growth prospects, while the infrastructure push itself will create jobs and stimulate economic activity. Naturally, much of the infrastructure effort will focus on national priorities, but there is a clear and well-understood need for cross-border physical infrastructure to encourage greater regional integration. Compared to other continents, Africa remains remarkably poorly integrated – trade tends to occur unilaterally with partners in the Americas, Europe and Asia.

Investor returns and economic growth

This paper outlines why we believe the economic outlook is sustainable for the continent as a whole and in particular for a number of the major markets in which we invest. If African economies continue to expand as we expect over the next decade and beyond, this should result in strong average returns for investors in Africa. This is particularly true if the continent continues to undergo the kind of structural economic transformation we highlight in this paper.

Knowledge of local conditions, understanding the realities of the market and regular interaction with businesses and policymakers are essential in order to unearth investment opportunities

However, economic growth alone is not a conclusive case for investment. As investors in a number of East Asian economies, notably China, can attest, high economic growth rates do not always result in strong equity or even bond market returns across the board. Knowledge of local conditions, understanding the realities of the market and regular interaction with businesses and policymakers are all essential in order to unearth investment opportunities in these growing markets.

While an enormous backlog in infrastructure remains, the nascent infrastructure development that has occurred in city centres has set in motion the emergence of a budding urban consumer and producer class. Rising consumer income and spending within rapidly growing urban centres suggest that more infrastructure development is needed.
Urbanisation and consumer spending have shown rapid growth in recent years, driven in part by the exogenous factor of Africa’s youthful population. Access to foreign import and export markets, improving work prospects and rising productivity and wages in cities have also contributed to this growth.

v. Urbanisation

The migration to cities in Africa has only just begun and in turn, the economic opportunities arising from urban infrastructure development have started to emerge. African countries are amongst the least urbanised in the world, suggesting enormous potential for the growth of cities on the continent. The emergence of urban consumer and producer classes has historically been associated with sustained economic growth and structural change, particularly the growth of formal services, manufacturing and construction sectors.

Lagos is expected to become one of the most populous cities in the world, second only to Mumbai over the next three decades

Mike Williams, Investec’s Head of Frontier and Emerging Markets Real Estate, underlines the extent of the transformation of Lagos, which is already Africa’s largest city. “Lagos, with an estimated population of more than 20 million, is one of the fastest growing cities in the world. Given Nigeria’s economic growth and urbanisation rate, Lagos is expected to become one of the most populous cities in the world, second only to Mumbai over the next three decades. This, coupled with Nigeria’s GDP growth rates, begins to suggest a global mega city with real estate potential twice the size of the South African listed sector,” Williams notes.

Figure 8: Africa is the world’s fastest urbanising continent

Source: Credit Suisse, “Opportunities in an Urbanizing World”, April 2012
Studies that examine the historic relationship between urban migration and per capita growth have found that there is a ‘sweet spot’ in the urbanisation process: as urbanisation levels rise from around 30% to 50%, per capita GDP growth rates peak. Most African countries will enter this bracket for the first time over the coming decade. Clearly, a concentration of urban consumers is important for businesses and investors in sectors such as financial services, health care, retail and wholesale consumer goods. As shown in Figure 8, African countries dominate the global ‘heat map’ of the most rapidly urbanising countries, accounting for the majority of countries where urbanisation rates are expected to exceed 2.5% per year over the next four decades. In contrast, Latin American countries are already highly urbanised, while urbanisation rates are expected to decrease in much of Asia.

vi. Labour productivity and rising income

Urbanisation and improved infrastructure are leading to an increase in labour productivity and consequently, rising wages and disposable income. Again, we believe that this process is only getting started. Africa’s demographics mean that the labour force will grow significantly in years to come. However, labour force growth is only one part of the story – since the turn of the century it has been matched by labour productivity growth. Demographics and urbanisation mean that more Africans are entering the labour force, while productivity growth means they are working smarter. Productivity growth was a bigger contributor to overall real GDP growth on the continent in the first decade of the 21st century, contributing 2.7% to real GDP, versus the 2.2% that came from labour force growth in the continent’s overall growth rate of 4.9% between 2000 and 2008. This is in stark contrast to

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Figure 9: Labour productivity is rising in Africa (CAGR* in labour productivity by decade)

Source: World Bank, World Development Indicators, April 2013

*CAGR: Compound annual growth rate

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6 See Credit Suisse, "Opportunities in an Urbanizing World", April 2012.
the 1980s and 1990s where the growth in the labour force accounted for all of Africa’s real GDP growth. In fact, productivity was negative, thereby detracting from GDP growth.

Urbanisation and improved infrastructure are leading to an increase in labour productivity and consequently, rising wages and disposable income

Since the early 1980s, labour productivity growth in the largest emerging markets, notably China, India and Brazil, has risen sharply, although there are signs that this growth has peaked. After declining in the 1980s, African labour productivity has risen steadily since the early 1990s and still appears to be on an upward trajectory. Rising labour productivity results in higher wages, which is consistent with the widely cited reduction in poverty and growth of the African middle class. These trends are ultimately reflected in the growth of disposable income and consumer spending.

Investec Asset Management Strategist, Michael Power, has been investing in Africa since the early 1990s. Power suggests that besides rising productivity and income there is another factor that is driving and deepening Africa’s domestic markets: “Growing Asian investment in African assembly plants indicates that Africa is now climbing onto the critically important manufacturing ladder of adding value.” Power elaborates: “Recent examples of this include China’s Huajian, the world’s largest shoemaker, investing in Ethiopia’s leather and shoe industry, as well as Japan’s Honda and Korea’s Samsung opening motorcycle and computer assembly plants in Kenya. These are exciting new developments for the African continent. East Africa may end up being the first region of Africa to undergo widespread industrialisation, thereby acting as the launch pad for the industrialisation of the rest of the continent.”

East Africa may end up being the first region of Africa to undergo widespread industrialisation

vii. Consumer spending

Urbanisation, coupled with rising productivity, wages and disposable income has already resulted in rising domestic demand and consumer spending. Consumer spending by sub-Saharan Africa’s rapidly expanding middle class is expected to grow at an impressive annual rate of 6% until 2020. The growth in discretionary spending will rise even faster than overall spending, as middle-class households move away from spending all their income on subsistence items such as basic food, housing and electricity, and are able to purchase durable consumer goods and services. This should be of particular interest to consumer-orientated businesses and investors. According to our estimates, a base-case 6% growth rate in total consumer spending by the growing middle class results in an average annual increase in discretionary spending of around 8.8%. This raises discretionary middle-class consumption from around $120 billion in 2010 to $277 billion in 2020.7

Consumer spending by sub-Saharan Africa’s rapidly expanding middle class is expected to grow at an impressive annual rate of 6% until 2020

Our observations on the ground confirm the trends we see in the official data on the growth in consumer spending and household income. Roelof Horne, Portfolio Manager in the Frontier and Emerging Markets Equities team, suggests that the same phenomenon is occurring across cities on the same

7 For more details on expected consumer growth, see “Africa: The next investment frontier – the growth potential of sub-Saharan Africa,” Africa Insights Series, Investec Asset Management, August 2012; and “The Middle of the Pyramid: Dynamics of the Middle Class in Africa”, African Development Bank, August 2011.
continent. “The number of cars on the roads has multiplied exponentially as incomes increased,” Horne notes. “A decade ago traffic jams in Africa were mostly confined to Johannesburg, Lagos and Cairo. These days, we find traffic jams in all the large centres. Nairobi has changed from a pleasant, laid-back town to a bustling city with full-day traffic jams.”

Investec Asset Management’s Africa consultant, Richard Honey, moved back home to Harare in late 2010. He notes: “Despite political uncertainty and concerns after Zimbabwe’s recent elections, I estimate that there is more than double the number of cars on the road during Harare’s school run, compared to three years ago. This is backed up by data received from a friend’s downstream fuel business where their sales numbers show that fuel sales, by volume, have more than doubled since 2010. These numbers indicate a significant change in underlying fuel consumption, which is a good proxy for economic activity in an economy like that of Zimbabwe.”

Africa’s growing urban consumer class underlines the fact that investing in Africa is much more than just a commodity story.

Africa’s growing urban consumer class underlines the fact that investing in Africa is much more than just a commodity story. The tighter concentration of consumers in urban centres, rising incomes and discretionary spending, and greater stability and predictability of income associated with formal employment all contribute to the increasing attractiveness of the African consumer story. Identifying businesses that are able to come up with innovative ways to tap into this emerging consumer class with its own idiosyncratic trends and habits, is critical to successful investments.

Figure 10: The expected rise of the African middle class

Note: Middle class defined by the OECD as households with daily expenditures of $10-$100 per person on a purchasing power parity basis. Source: OECD and UN
One of the prime examples of this is Safaricom, with its groundbreaking MPESA mobile banking platform. Malcolm Gray, Portfolio Manager in the Frontier and Emerging Markets Equities team, reflects on what first attracted him to the business: “I first came across Safaricom’s MPESA on a trip to Kenya in 2009. Back then, it was sold to the investment community as a key component of their ‘client retention’ strategy. What struck me was the potential. I was immediately excited by it, not only because of the potential of providing money transfers, but that it spoke to innovation, technology and bottom-of-the-pyramid solutions for Africa,” Gray notes. “Today, I am even more convinced – MPESA accounts for 18% of Safaricom’s revenue and is a clear contributor to profits. More importantly, it has become ubiquitous in Kenya, not only as a means of money transfers but as a serious payment solution in the economy, empowering communities. It is the poster child of what is really possible when innovation and the African consumer are brought together.”

Mobile banking platform, MPESA, is the poster child of what is really possible when innovation and the African consumer are brought together.

viii. Completing the cycle: aspirations and raised expectations

The final link in the reinforcing drivers of growth in Africa is the inexorable rise in the aspirations and expectations of African populations. In the not-too-distant past, Africa was derided as the “Hopeless Continent”, in which politicians and ruling elites held little regard for the concerns of their constituents. A lack of accountability and insufficient institutional checks and balances in the political system left citizens apathetic towards the actions and performance of their governments and their own participation in the political process. It seems highly unlikely that this will continue, as an ever larger number of Africans leave behind a life of subsistence in favour of one based on formal employment. With formal employment comes taxation and increased demands for access to education, skills and medical services. Rising incomes and an urban livelihood result in higher savings levels; increased cooperation between citizens; and demands for economic stability, sound governance and the enforcement of property rights.

André Roux, Co-Head of Investec Asset Management’s Emerging Market Fixed Income, underlines the extent of the governance and policy challenge that lies ahead in the decade to come: “Although we’ve seen countries generally adopting a more disciplined approach to macroeconomic policy and politics, this is a necessary but not sufficient condition for sustained economic growth in Africa. The real action and promise now lie in putting functional infrastructure in place, building on the first signs of agricultural and manufacturing growth, and deepening domestic capital markets and financial sectors.”

At this point we return to where the cycle started: improving governance. Recall that in our view, the reduction in conflict and authoritarian rule was the catalyst for economic growth that set the cycle in motion. We believe that Africa has turned a historic corner and that the days in which pervasive conflicts and low levels of accountability impeded...
the rise of Africans’ prosperity are going to be increasingly behind us. As a result, governance and accountability are improving; better macroeconomic policies are being implemented; there is stronger management of resources; infrastructure investment is growing; more people are moving to cities; labour productivity is on the up; and the African consumer is spending more.

Conclusion: the sustainability of African economic growth

All of these factors are ongoing in an enabling environment with favourable demographics, significant resource endowment and a low starting base. We believe that the reinforcing drivers of growth currently at work in Africa will continue to result in a strong, sustainable economic advance for the continent for decades to come. Despite this strong conclusion, it is important that readers understand that our conviction around Africa’s potential reflects a long-term view. There will be periods of volatility in individual African countries or regions that investors will need to ride out. During these periods of uncertainty and doubt, we encourage our readers to review the factors and drivers outlined in this paper and assess if the overall growth thesis still holds and if it does, to remain focused on the long-term horizon and potential of the African continent.

The reinforcing drivers of growth currently at work in Africa should result in a strong, sustainable economic advance for the continent for decades to come
How would you define the historic relationship between the US and Africa?

For the most part, aside from a handful of oil multinationals, the US has predominantly looked at Africa as an aid and development story, rather than through a business lens or as an investment destination. While the 1980s and 1990s were certainly times of civil war, famine and crises, which required significant aid intervention, the last decade of robust growth, better governance and a growing middle class have changed the continent substantially. However, the new reality is only just starting to filter through to the US business psyche and most corporations, let alone the average US citizen. For the most part I think the US is largely stuck in with an ‘aid’ mentality regarding Africa versus one of opportunity.

What do you think has been the primary reason for the US view on Africa?

One of the big reasons behind the US view on Africa is the influence of western media companies like CNN. Headlines in the US about Africa are rarely positive and almost always dominated by dramatic issues, from poverty to violence, rather than good news stories on business. Moreover, the media tend to use isolated incidents in one region to paint all of Africa with the same brush, so a kidnapping in Nigeria, for example, suddenly becomes an issue or risk for all of Africa. Certainly, a big issue in US-Africa relations is the misperception of Africa.

What do you think needs to change in order to move things on between the US and Africa?

We need to be extremely clear as to what we want from US business and investors, otherwise the pattern will never change. We are often divided, given the different needs of our 54 nations. This needs to change and we need to be an ‘African Union’ if we are ever to have critical negotiation power. When the Chinese come to Africa on a trade

aid money to buy condoms that are then sent to Africa? Why not incentivise the likes of Pfizer to build condom factories using local resources and skills?

... but would you agree that the responsibility for this mind-set shift rests with both sides?

I couldn’t agree more. It is not solely the responsibility of Americans to change their attitude. We, as Africans, need to play an important role in telling our own narrative. Maybe this is a poor analogy, but it’s almost like we are trying to sell dirty shoes to the US. We need to clean up our own business and clean up the image of Africa before we can expect their views on us to change. We have to show and tell the story about the real Africa today: the talent, the entrepreneurship, the innovation, the natural beauty that is so much more than just oil and commodities.

What do you think are the most important areas for African governments and business to be working on, in order to engage with the US productively?

We need to change the perception. US policymakers, business leaders and investors need to see Africa as a destination of opportunity, not as something ‘to be fixed’. They need to move on – leave the development aid to Bill Gates. We should be turning development into business. Why use

“Certainly, a big issue in US-Africa relations is misperception about Africa.”

Interview with Kola Karim

Kola Karim is CEO of Shoreline Energy International
mission, they are incredibly prepared and form a united front. They have done their homework, know what they want in negotiations and have the relevant support mechanisms through the China Investment Corporation (CIC) and the China Africa Development Fund in place to deliver on their commitments. Do we as Africans have the same approach? Do the Americans? I don’t think it is as clear.

We also have to take a stronger, integrated African approach to solving some of the very real issues we have on hand – terrorism and security being examples – in addition to directing taxes to the right regions for development. If money was adequately invested in northern Nigeria and the region developed a more diverse and sustainable economy, do you think we would have the same issue with Boko Haram? No. If the president of Nigeria said that every business that invests in northern Nigeria for the next ten years would be eligible for a tax holiday, you would see transformation overnight and an economic power that would be built around our entrepreneurial spirit.

Another big opportunity is the role of women in our society. My mother was an entrepreneur, who was largely responsible for the early growth of our family business, and she accomplished this without affordable funding, because it simply was not available. I think a priority for international and African leaders, if they want to make a real difference in Africa, is to get our funding mechanisms for entrepreneurs and growing small-to-medium-size enterprises right, especially for female entrepreneurs. As Aliko Dangote, one of Africa’s richest men, commented at the World Economic Forum, “you can’t expect to build a thousand Dangote Groups if small businesses can only acquire 90-day financing at 42% interest rates!”

“We need to change the perception. US policymakers, business leaders and investors need to see Africa as a destination of opportunity, not as something ‘to be fixed’.”
Africa and the United States: A defining relationship of the 21st century
Foreign investors in Africa

Overview

Africa is a source of substantial economic and financial interest for nations worldwide. Endowed with attractive economic characteristics, including a vast natural resource base, abundant land and low cost labour, the continent’s appeal is only set to increase in the coming decades. It is vital for investors to understand where Africa fits within the global universe, as they navigate the continent’s investment opportunities.

The US is increasing the breadth of its interaction with Africa, as the continent occupies a more prominent spot in US strategic interests than before. This is mainly driven by competition from China and its rapidly expanding role on the continent; a burgeoning opportunity for US businesses to cater to Africa’s growing middle class, and an increasingly important geopolitical context. Unlike the Chinese government, the US economic involvement in Africa will be propelled by its private sector. President Obama’s recent policy frameworks and initiatives towards Africa make it clear that the US business community has a major role in expanding broader US engagement on the continent, which the US government will support. Given the strength and expansive nature of the US private sector, we strongly believe that a private-sector led form of investment will have significantly positive impacts for both American businesses and African economic growth.

China’s engagement with Africa is driven by government investment and concentrates on the continent’s resources and commodities. This investment is facilitated via concessional loans spearheaded by the Export-Import Bank, the creation of special economic zones (SEZs) funded by the Chinese Ministry of Commerce, as well as the China Africa Development Fund. This explains the high degree of concentration in China-Africa trade, as well as in foreign direct investment (FDI). Although much has been made of the mercantile relationship between China and Africa, we believe that Chinese investment in Africa will be a source of long-term growth through improved infrastructure and FDI.

Equally, Brazil’s relationship with Africa is blossoming. In addition to its significant trade and commercial interests, Brazil is seen as a source of technical assistance on key issues facing African economies, namely agriculture, health and energy. Brazil has the largest technical assistance imprint on the African continent, and this knowledge-sharing has already led to significant successes in agricultural and development projects. Given the commonalities between Brazilian and African agricultural zones and commodity bases, this source of long-term co-operation and technical assistance will help overcome some of the greatest challenges Africa faces, in terms of human development and agriculture.

Lastly, Europe has, and will, continue to play a significant role in African affairs. Given the deep historical relationship between the two regions, Europe’s role is never to be ignored. Europe remains an important trading partner for Africa and the largest traditional aid donor to the continent, helping support development of human capital throughout the continent at the earliest stages of economic progress.

We believe that the US, China, Brazil and Europe will have an increasingly complementary relationship with African economies. Although there will be competition between these major powers on the continent, each of these regions has a unique role to play.

It is our aim to provide a framework for how these four major economic powers intend to drive their economic policies towards Africa.
i. Africa and the international financial architecture

To begin, it is vital to understand the different forms of financial engagement that sovereign governments may have with one another. This will help set the framework for understanding how China, the US, and Brazil are engaging with Africa.

Figure 11: Global development finance architecture

Key insights:
- Global development finance is a combination of official and private capital, and it is fraught with challenges of solid data, especially coming out of China.
- The importance of official capital in Africa (in the form of aid and other official flows) has been decreasing over the past decade.

Figure 11 provides a useful illustration of the various constituent parts of global development finance. Broadly, we can separate financial flows into two categories: private capital and official capital.

Private capital includes:
- Workers’ remittances: This refers to capital sent by a foreign worker to his or her home country. This constitutes a significant amount of capital inflow given the large African diaspora in the Middle East, Europe and the US. However, it is often difficult to track. According to the World Bank, worker remittances to sub-Saharan Africa (SSA) were over US$60 billion in 2013.
- FDI: This refers to the capital invested by foreign businesses in the production and business capacities of another nation. In recent years, FDI into Africa has remained resilient, despite global macroeconomic concerns. Africa attracts approximately 5.6% of global FDI amounting to US$70.1 billion (2013), according to EY’s Africa attractiveness survey 2014.
- Portfolio equity, debt and grants: This refers to private and public capital, from institutional and private investors, allocated towards businesses and governments. This would include equity and debt investments into corporations, sovereign debt as well as loans from non-resident benefactors to African businesses.

Source: Deborah Brautigam


Official capital (under the purview of sovereigns) includes:

- **Official development assistance (ODA):** ODA, as described by the OECD development assistance committee (DAC), refers to official sector lending to developing countries (defined as per capita income below a regularly adjusted threshold) within which concessional grants comprise at least 25% of the funds. Most official aid falls under this category. According to the OECD, the total ODA from DAC (not including China) in 2013 was US$134 billion.

- **Other official flows:** This refers to foreign government aid that does not meet the ODA criteria, as stated above. This would include loans with a grant element of less than 25% or official bilateral transactions that are primarily export facilitating in purpose. Most Chinese capital flow into Africa falls under this category.

Given these definitions, it is important to understand the recent trends of global capital flows into Africa. Figure 12 delineates foreign capital flows under the categories of private and official capital from the 1990s onwards. There are some main conclusions that we should draw out:

1. **Growth in overall flows:** Since 1990, there has been an eight-fold increase in total capital flows into Africa. This has been driven by the surge in private capital (FDI and portfolio flows) and private transfers (workers’ remittances).

2. **Decline in official capital’s importance:** Although development aid to Africa has increased dramatically, its share in total capital flows has decreased. Official flows are generally less volatile than capital flows and play a different role in budgeting (most ODA serves as budget support rather than project finance).

3. **Reliance on private flows:** Africa’s reliance on private flows as a source of funding is a matter of concern for many investors, as it makes monetary management a challenge for governments. According to the IMF, net private capital flows to sub-Saharan Africa (SSA) have been larger as a percentage of GDP compared to other emerging countries. In fact, nations such as Kenya have witnessed non-resident holdings of government securities rise from 0% to 40% in just 10 years.

“Since 1990, there has been an eight-fold increase in total capital flows into Africa.”

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3 Deborah Brautigam, *Aid in Africa: What, where, why and how much?*, p.204
ii. The role of the US in Africa – from aid to commerce

“I think in private there is very little US concern about what China is doing in Africa. The US is not going to build highways and bridges and airports, and that is something Africa needs, so we should be grateful that the Chinese are doing this.”

Todd Moss, senior fellow at the Center for Global Development, former deputy assistant secretary of state in the Africa division

Over the past 24 months, the US has begun to signal a re-orientation of economic and trade policy towards Africa. This is fuelled by a few major beliefs in US policy and business circles, comprising of:

1. A growing concern throughout Washington DC that the US is falling behind China in Africa. This sentiment was supported by the fact that in 2009, the US was overtaken by China as the largest trade partner of Africa.

2. A realisation by the US corporate community that recent growth in Africa provides strong reasons to deploy capital and investments on the continent.

3. An increasing geopolitical appreciation for Africa’s role in global peace and security.

In June 2012, president Obama released a new presidential policy directive on the SSA region — a forward looking strategy for future US engagement with Africa. In it, president Obama outlined a four-pillared approach regarding US engagement in Africa:

a. Strengthen democratic institutions
b. Spur economic growth, trade and investment
c. Advance peace and security
d. Promote opportunity and development

Key insights:

- The US is going through a major policy re-orientation towards Africa.
- US policy will mean increased trade deals, with investment driven by the private sector.
- US businesses will benefit from improved infrastructure on the continent. We can expect US private investments to follow Chinese infrastructure build.

“The days of having outsiders come and extract the wealth of Africa for themselves, leaving nothing or very little behind, should be over in the 21st century.”

Hillary Clinton, August 2012

“Now with respect to China and Africa. China is all over Africa — I mean all over Africa. And they’re buying up long-term contracts on minerals, on — you name it. And there are some places where we’re not in the game, folks. I mean I hate to say it: we got to get in it, but it takes a little bit of resourcing. Believe me, somebody is paying for those folks to be over there, somebody is investing in their investment of time. And we have to be prepared because I think what we bring to the table is frankly a lot more attractive than what a lot of other countries bring to the table. People like to do business with American businesses. We’re open, we’re accountable, we have freedom of creativity and other kinds of things. And I think that if we can organise ourselves more effectively in this sector, we can win.”

John Kerry, January 2013

“We may be winning the war on disease, while losing the battle for hearts and minds in Africa.”

Senator Chris Coons, chair of Africa sub-Committee, November 2011
a. US-Africa economic ties

Trade: From a trade perspective, the US is Africa’s second largest export destination. In 2013, total US-Africa trade totalled $85 billion, with $35 billion US exports to Africa and $50 billion African exports to the US. This compared to approximately $200 billion of African trade with China and $137 billion with Europe.

The Africa Growth and Opportunity Act (AGOA) is the US-Africa trade initiative that is aimed at improving economic relations between Africa and the US. This legislation was passed in 2000 and provides a mechanism for African countries to export their goods to the US, with countries that adhere to human rights, seek to improve the rule of law and respect core labour standards enjoying preferential duty arrangements. There are currently 41 countries in the AGOA initiative. The chart below shows the goods traded between AGOA countries and the United States since its inception in 2000. The AGOA is up for renewal in 2015.

FDI: SSA countries are a relatively minor destination for US FDI. Africa received approximately 1% of total outward US FDI in 2012 at US$3.7 billion. US FDI is largely concentrated in the mining and extractive industries, which together comprises US$33 billion out of US$57 billion of total FDI stock in Africa. In 2012, the three countries with the largest stock of US FDI were Mauritius, South Africa and Nigeria, and the largest recipients in terms of one-year flows were South Africa, Nigeria and Egypt.

Figure 13: Goods trade between AGOA countries and the US

Source: AGOA

Source: AGOA. http://agoa.info/data/total-trade.html
Official Development Assistance: From an official development assistance perspective, the US is the largest contributor to African countries with around US$8 billion in economic assistance per year. This aid (of which, close to a quarter goes towards general budget support and half towards poverty and health related projects) is close to four times the amount of traditional aid disbursed by China to African countries.

b. Power Africa

In June 2013, President Obama announced the Power Africa initiative which aims to double the number of the SSA population which has access to power. This is the flagship policy announcement of the US vis-à-vis Africa, a project which intends to generate an additional 10,000MW of solar, wind, hydropower, natural gas, and geothermal energy in the next five years.

According to the White House, more than two-thirds of the SSA population is without electricity and more than 85% of those living in rural areas lack access. The International Energy Agency believes that Africa will require more than US$300 billion in investment to achieve universal electricity access by 2030.

The insert on the next page from USAID highlights the key aspects of the Power Africa Initiative.

c. What does all this mean?

It seems that the US government and private sector have woken up to the fact that they are falling behind in their approach towards Africa, as a trade and investment destination. China-Africa trade has increased over 1000% since the start of the 21st century, while US-Africa trade has only increased by 100% over the same period. There is a sense that US businesses are increasingly recognising the opportunities offered by the region. However, it is clear that, given their differing interests, financial positions and value-add propositions, the US will play a different role to China. The US will not, for example, be building large-scale infrastructure, special economic zones (SEZ) or other state-led development and extractive processes in Africa.

From an investment side, it will be important to understand what the US private sector is doing in Africa. By understanding where major US businesses are investing their time and resources, it will be easier to understand areas and industries of growth on the continent.
Spotlight on Power Africa: US government support capabilities

U.S. Agency for International Development (USAID) – provides targeted technical assistance to advance specific development objectives; provides program management support to Power Africa

Key capabilities:
• Posted Transaction Advisors in all six Power Africa countries to assist in advancing agreements between public and private partners
• Contributes to multi donor funds such as the African Union’s Geothermal Risk Mitigation Facility, the African Legal Support Facility, and the African Development Bank’s Sustainable Energy Fund for Africa
• Provides technical assistance to support Mission-led energy initiatives in Power Africa countries
• Offers loan guarantees to African financial institutions through USAID’s Development Credit Authority

Millennium Challenge Corporation (MCC) – a U.S. foreign aid agency that partners with poor but well-governed countries to reduce poverty and promote economic growth

Key capabilities:
• Increases access to electricity by investing up to $1 billion in African power systems through MCC grants
• Awards financial support for energy infrastructure projects determined by partner countries
• Motivates partner countries to implement sector reforms, regulations, governance and utility changes to make the power sector more commercially viable
• Provides technical assistance and management support for ministries, regulators and utilities

Overseas Private Investment Corporation (OPIC) – supports U.S. private sector investment in emerging markets by offering capital and risk mitigation tools

Key capabilities:
• Direct loans and guarantees up to $250 million with maturities as long as 20 years on projects that meet minimum U.S. ownership requirement
• Allocates political risk insurance; specialty coverage available for investments in the renewable resources sector and provides support for private equity investment funds
• Supports project development funding to clean energy ventures through the U.S.-Africa Clean Energy Finance Initiative (U.S.-ACEF), a $20 million initiative, co-sponsored with the U.S. State Department and Trade and Development Agency

Export-Import Bank of the United States (EX-IM) – assists in the financing of U.S. goods and services to international markets

Key capabilities:
• Issues fixed-rate financing to credit worthy international buyers in both the private and public sector
• Provides loan guarantees for financiers of foreign buyer’s in the purchase of U.S. capital equipment and services
• Support export credit Insurance to cover risk of buyer nonpayment for commercial risks (e.g., bankruptcy) and certain political risks (e.g., war or the inconvertibility of currency)
U.S. Trade and Development Agency (USTDA) – provides grant-based project planning assistance to mobilise capital for infrastructure in developing and middle-income countries

Key capabilities:
• Supports feasibility studies and pilot projects to provide the required comprehensive analysis for major infrastructure projects to achieve successful financing and implementation
• Provides technical assistance to support legal and regulatory reform related to commercial activities and infrastructure development, the establishment of industry standards, and other market-opening activities
• Hosts reverse trade missions to the U.S. for overseas project sponsors to observe the design, manufacturing, demonstration and operation of American products and services which can help the officials achieve their development goals
• Provides grant-based project planning through the U.S. Africa Clean Energy Finance initiative

U.S. Department of Commerce (Commerce) – facilitates global trade and strengthens the international economic position of the United States

Key capabilities:
• Identifies market barriers and expands the availability of trade financing
• Trade data and methodology to expand international sales and marketing
• Identifies potential agents, distributors, and buyers

U.S. Department of State (DOS) – advances the political and economic dialogue on transformational energy policies through diplomacy, trade & investment promotion services, technical assistance and partnerships and bilateral programs

Key capabilities:
• Conducts senior level advocacy with host governments to advance legal, regulatory, and institutional reforms that contribute to an enabling environment for trade and investment
• Provides technical assistance to support regulatory and legal reform through the Energy Bureau’s Energy Governance and Capacity Initiative (ECGI)
• Demonstrate leadership by developing economic partnerships, including Sustainable Energy for All in Ghana

U.S. Department of Treasury (Treasury) – works directly with the ministries of finance, economy, and budget in target countries to advise on the macroeconomic dimensions of policy decisions, steps to improve the investment climate and financing options for infrastructure investments

Key capabilities:
• Provides in-country expertise to partner governments in budget and financial accountability, government debt management and issuance, revenue policy and administration, and structuring of infrastructure investments and agreements
• Collaborates with the World Bank, African Development Bank, and International Monetary Fund to leverage policy advice, technical assistance, and lending programs to support government reform, development programs, and private investment

By USAID
http://www.usaid.gov/powerafrica
U.S. Department of Energy (DOE) – provides technical expertise to U.S. agencies and African governments to improve the efficiency and resilience of energy systems and reduce adverse environmental impacts

Key capabilities:
- Provides technical expertise supporting the development and modernisation of grids in developing countries through both bilateral cooperation and multilateral initiatives, like the Clean Energy Ministerial
- Provides expertise in policy planning, energy market analysis, energy modelling, and technical analysis to incubate enabling environments that encourage private investment
- Undertakes assistance for regulatory reform (e.g., tariff design) by fostering relationships between applicable focus country agencies and U.S. regulators, including members of the National Association of Regulatory and Utility Commissioners
- Helps nurture innovative technologies developed by the DOE National Laboratories that enhance the economics of solar, wind, biomass and geothermal projects

U.S. African Development Foundation (USADF) – funds African enterprises, co-operatives and community-based organisations to build capacity and expand economic activities

Key capabilities:
- Awards capacity building and expansion grants of up to $250,000 to catalyse groups for future growth by funding technical, managerial and organisational improvements
- Provides due diligence research, project design and business planning, and monitoring and evaluation oversight
- In partnership with GE Africa, awards grants up to $100,000 to African organisations for off-grid solutions that deploy renewable resources and stimulate economic activity

U.S. Department of Agriculture (USDA) – promotes sound policies and provides technical assistance to support national and international agriculture, energy, environmental and trade issues

Key capabilities:
- Provides expertise in policy, regulatory and institutional capacity building, utility infrastructure, renewable energy and financing issues
- Provides capabilities in establishing community and business association ownership models and bid solicitation and proposal evaluation processes and standards
- Designs debt and equity financing mechanisms and develops performance based indicators

U.S. Army Corps of Engineers (Army Corps) – conducts engineering studies on infrastructure

Key capabilities:
- Undertakes technical assistance and construction management for power generation projects, on a reimbursement basis
Spotlight on Electrify Africa Act

The Electrify Africa Act, which mirrors many aspects of the Power Africa initiative, aims to make government-backed credit more accessible to the private sector in order to deliver access to energy for more than 50 million people in SSA. This important development could help interested investors access a $300 billion energy market in SSA and tap into the demand for an additional 20,000 megawatts (mw) in the region.

The bill, passed through the US House of Representatives by a vote of 297 to 117 on 8 May 2014, was sponsored by the chairmen and ranking members of the Foreign Affairs Committee and its Africa sub-committee. Its passage confirms the existence of a broad, bi-partisan consensus supporting US direct investment in Africa’s energy sector.

The bill now heads to the Senate and, if enacted, the Electrify Africa Act will mean that it is the policy of the US to encourage access to electricity in SSA. It will also require that the administration create a comprehensive strategy to help increase electricity in SSA.

More importantly, the Electrify Africa Act would determine how certain US agencies do business in Africa. Some examples specified by the act are listed below:

- The US Agency for International Development (USAID) would prioritise existing tools, like loan guarantees, partnerships and grants to increase electricity in SSA, while also encouraging USAID to develop national, regional and local electricity policy plans.

- The US Department of Treasury would guide its director at the World Bank and African Development Bank to increase electricity investments in SSA and to coordinate with the private sector.

- The Overseas Private Investment Corporation (OPIC) would prioritise electricity projects and expedite review and approval of loans, guarantees and insurance by investors in SSA. OPIC would be instructed to increase loans, guarantees, insurance programmes and commitments in SSA, including the creation of an advisory council to assist its board.

- The US Trade and Development Agency (USTR) would promote US private sector participation in energy sector development and to seek opportunities to fund project preparation activities including power generation.

- Easier access to credit should lead to an increase in the number of privatised power projects within SSA as the US government works with partner countries to reform and open energy markets. Both Power Africa and Electrify Africa typify the new strategy of the US government towards Africa – namely, encouraging the private sector to play a more substantive role in the energy and power sector of the continent.

“This important development could help interested investors access a $300 billion energy market in SSA and tap into the demand for an additional 20,000 megawatts (mw) in the region.”

By Carl Fleming, Akin Gump
At this present moment, 600 million Africans lack access to electricity, with countless more affected by an absence of a reliable electricity source. Historically, ‘energy poverty’ has not received the attention it deserves, and countless Africans are spending vast amounts of their income on unsafe and costly forms of energy. This restricts economic development, hinders education and has a negative impact on healthcare. According to a recent Population Reference Bureau’s report, Africa’s population will experience substantial growth and could potentially double by 2050, increasing the likelihood of entrepreneurial and business-minded people joining the labour force. However, these aspiring new entrants are struggling to succeed and in turn create job growth as the lack of access to electricity, reduced reliability and insufficient energy capacity are forcing businesses to operate diesel generators at almost three times the cost.

African economies experienced impressive growth rates over the last ten years which has increased the potential for governments to endorse reforms that would be focused on the quality of African growth and sustainable development. Investment in Africa has been equally as impressive, and we know that Africa is not suffering from local demand for power infrastructure projects, so the problem must be on the supply side. Power and infrastructure development is a key driver of the African sustainable development path, but a lack of finance, knowledge and technology has resulted in a slower power infrastructure growth rate. On the other hand, private multinational companies often have the skills, knowledge, and design tools to undertake huge projects, which could be mutually beneficial to investors and governments. The World Bank’s Private Participation in Infrastructure (PPI) indicates that Africa has developed more slowly, relative to other developing regions, but there are a growing number of governments looking to the private sector to drive massive infrastructure and power projects, enabling a diffusion of technology in emerging markets. This process is effectively developing skills and African power independence. But will public-private partnerships really be enough to meet the power infrastructure gap and imminent need for electricity in Africa?

It is to help fill this infrastructure gap, that president Obama announced the Power Africa initiative. The US government recognises the importance of development in Africa and is, therefore, looking to endorse legislation that would define future engagement on the African continent.

Power Africa will partner with the World Bank, African Development Bank, governments and the private sector to deliver efficient, clean, energy and allow countries to achieve sustainable energy security. Power Africa appeals for $7 billion in US financial funding, but, according to Carl Fleming of commercial law firm Akin Gump, “SSA requires a greater than $300 billion investment to achieve universal electricity access by 2030”. This is, therefore, just the start of Africa’s development path. To help meet this investment gap, Power Africa has developed ‘an innovative model based on transactions with private investors and also policy support to governments to focus and enable key energy projects’. The new operating model would leverage US technologies, private sector engagement and regulatory reform to drive changes that would facilitate future investment into the energy sector.

One of the first Power Africa-endorsed projects was an agreement with Reykjavik Geothermal, the government of Ethiopia and the Ethiopian Electric Power Corporation in 2013 to establish the Corbetti Geothermal Plant – the first independent power plant.

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project in Ethiopia’s history. Reykjavik Geothermal, which is about 65% owned by US investors, is the main pillar of Corbetti Geothermal, and is one of the worlds’ most experienced geothermal management and science teams. This partnership offers the potential for Africans to benefit from energy cost reductions, global development in power generation technologies, a top tier international skillset and acts as a pivotal component for a renewable-based energy coordination structure. CGP has been established as an Ethiopian-based company for geothermal development and operations, and focuses on the development of high temperature geothermal resources (harnessed by drilling for steam in volcanically active regions with certain geological conditions) for utility scale power production in the Main Ethiopian Rift. The plan involves the construction of a geothermal power project of 1000+ Mw in two phases, with the first 500 Mw of power to be developed in Corbetti.

The project enjoys strong support from the political leaders of Ethiopia and highlights the growing number of public private partnerships (PPP) in Africa, as well as the increasing recognition of foreign expertise in African infrastructure projects. Reykjavik Geothermal had to fight off intense competition from both international geothermal power companies and large scale hydro resources that were developed with public money, evidence of the growing international interest in Africa; nevertheless, the Ethiopian government was highly influenced by the fact that the US-backed company’s sustainable development path was in line with its own objectives, and that they were still able to compete successfully.

Ethiopia, along with many SSA countries, has experienced improved economic performance over the last decade and, despite a recent market correction in emerging markets, it seems reasonable to presume that African growth will continue to sustain itself in the long term. Increased private consumption and public investment has been a great contributor to reducing poverty in rural and urban areas, resulting in a growing number of Africans being lifted out of poverty. As a growing number of Africans join the middle class, this will put further pressure on infrastructure and power, due to increased consumption. The current shortfall of the power sector has been identified as a major impediment to the continued growth of SSA countries, but the untapped geothermal resources of the African geothermal rift are plentiful and accessible. By utilising PPP and initiatives such as Power Africa, it is hoped that developers can quickly improve indigenous infrastructures and boost local economics, while still adhering to environmentally sound practices and technologies.

There is no doubt that Africa has a long way to go, but there are encouraging early signs that PPPs encourage the diffusion of technology from developed to developing countries along with the required funding that will help reduce Africa’s problematic infrastructure gap. We believe in the Power Africa initiative, which should further entrench Africa’s sustainable development path and economic growth, reduce power costs and lead to the flourishing of new African businesses. An Africa with power will ultimately be a significant player in a globalising economy.

“This partnership offers the potential for Africans to benefit from energy cost reductions, global development in power generation technologies, a top tier international skillset and acts as a pivotal component for a renewable-based energy coordination structure.”
iii. China’s role in Africa – investors of first resort

Key insights:

• China-Africa economic relations are driven by China’s zou chuqu or ‘going out’ policy, with strong government support for investment and business expansion in Africa.

• China-Africa trade is heavily concentrated in commodity-based economies. There is an argument that the strong appetite for natural resources in China, as well as the importing of low-cost manufactured goods from China, is impeding the diversification of many African economies.

• SEZs have historically been ineffective in Africa. As of March 2013, there were four operational SEZs, with three further zones under construction. This may mark the beginning of a more successful attempt towards structural economic reform.

There are three specific points which we believe will define the future of Chinese-African economic relationships:

1. The growth and concentration of economic ties, including trade partnerships

2. The advent of SEZs and their recent successes and shortcomings

3. Chinese FDI and infrastructure investments

Background

China-Africa economic relations are not a new development – in fact, these two regions have one of the oldest trading relationships in modern history, beginning with the Han dynasty of the second century BC. In the post-colonial period, particularly during the Cold War, China extended its influence around the world to export the communist revolution and provide an alternative path to colonial influence. Chinese economic relations with Africa were notable for a few reasons. The first is that China itself was a relatively poor country. In 1960, when China provided a $20 million interest-free loan to Ghana (the first African country to establish diplomatic relations with China), the GDP per capita in China was only $600. China was, in fact, poorer than many countries to which it gave economic assistance.8

The second notable fact was that Chinese ‘aid’ mirrored many of the same attributes it does today: fewer conditions than western aid, very low rates for loans, repayable over long periods of time, and training to professional and technical personnel. As Dr Christopher Alden of the London School of Economics states, “The West’s employment of conditionalities, merely the latest in the decades of humiliating experiences at the hands of former colonial powers and the United States, echoes the humiliations of the ‘inequal treaties’ foisted on China by the West in the nineteenth century. Indeed, China’s ability to recognise this is part of the genius of its foreign policy endeavours towards Africa.”9

The third notable characteristic of Chinese investment was its focus on infrastructure. As Renard recounts, China financed the construction of a railway line between Zambia and Tanzania between 1973 and 1976, dispatching over 15,000 Chinese workers for the project. Similar infrastructure projects were undertaken around the continent, including Ghana, Kenya, and Guinea.10

9 Ibid.
10 Ibid.
a. Framework of Chinese – Africa engagement

Chinese engagement with Africa must be understood within the context of China’s ‘going out’ policy framework that has guided Chinese foreign policy since the mid-1990s. Under this framework, the Chinese government has provided significant financial support to businesses and government-sponsored entities to expand their presence globally.

In January 2006, China released its official white paper on China-African Policy. This short policy paper highlighted a few main principles of Chinese engagement with Africa:

1. Mutual benefit: Chinese trade and investment with Africa should be mutually beneficial for both regions.

2. Non-interference: As opposed to similar strategy papers put forward by the European Union, this document highlights China’s commitment to non-interference in domestic politics.

3. Bilateral relations: Unlike the US and EU, Chinese trade and investment focus is more on a bi-lateral basis, as opposed to regional or national.

4. Focus on dialogue and forums for partnership: There is significant discussion of political visits, exchange of information and mutual learning between China and Africa, given their shared economic history.11

From the Chinese official sector perspective, there are three major agencies and forums that have driven economic investment and relationships with Africa: the China-Africa Development Fund (CADF), the Export-Import Bank of China and the Forum of China-Africa Cooperation (FOCAC).

There are, according to some scholars, over 23 different agencies within the Chinese government that provide aid and financing to Africa. Given the opaqueness of these dealings, we will focus on these three:

- **Export-Import Bank of China:** Highly secretive in its dealings, the bank is the official lending arm of the Chinese government. The bank has extended loans and grants for commercial projects in over 35 countries in Africa. Between 2001 and 2010, Fitch estimates that the Ex-im Bank has provided $67.2 billion for projects in Africa – more than the World Bank’s $54.7 billion during the same period. This institution is also responsible for leading the effort of the internationalisation of the Renminbi through loan finance. In November 2013, Dr Zhou Changhui, chief country risk analyst at Export-Import Bank of China pledged US$1 trillion of financing to Africa until 2025. The shift in overseas investment focus is a huge boost for Africa.

- **China-Africa Development Fund (CADF):** Established in 2007 by the China Development Bank, CADF is an equity investment fund (approximately $5 billion) that provides assistance to Chinese companies expanding in Africa. This fund has supported various steel and mining companies already, and is a major supporter of Chinese companies operating in SEZs.

- **Forum on China-Africa Cooperation (FOCAC):** Established in 2000, FOCAC is the official forum and meeting platform for African and Chinese government officials. FOCAC has hosted five ministerial summits in the past 12 years, during which major policy initiatives and funding commitments, including a $10 billion concessional loan guarantee from the China Development Bank at the 2009 summit, were agreed.

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More recently, there has been a symbolic shift in China’s policy, as the ‘Africa Growing Together Fund’ marks a movement away from a traditional ‘cheque book’ strategy towards a multilateral investment approach. There has been an increasing amount of criticism that China was moving towards a ‘neocolonialist’ policy approach in Africa. Some of this criticism is well-founded: Chinese businesses in Africa have, in aggregate, done a relatively poor job hiring local employees, and have led to the infusion of many cheap goods from China, delaying the development of local manufacturing jobs. The extraction of natural resources for export to China has also brought up questions whether the terms of such deals are in the long-term interests of African nations.

The Africa Growing Together Fund points towards Beijing redirecting its intentions by promoting deeper relations with Africa. The multilateral fund will result in contracts being awarded to the most appropriate bidder, not just Chinese companies.

“I wish to assure our African friends in all seriousness that China will never pursue a colonialist path like some countries did or allow colonialism, which belonged to the past, to reappear in Africa.”

Chinese Premier Li Keqiang, Nigeria, May 2014

“Africa for the next 20 years will be the single-most important business destination for many Chinese mega corporations.”

Dr Zhao Changhui, the chief country risk analyst at Export-Import Bank of China, Africa Investment Summit, Hong Kong, November 2013

b. Trade

Trade between China and Africa has been increasing at an exponential rate since the 1990s. As can be seen from Figure 14, both Chinese imports and exports have experienced substantial growth over the last decade. China-Africa trade breached the $200 billion mark for the first time in 2013, which is an exponential increase from the $1 billion traded in 1980, and $10 billion in 2000. Despite this meteoric rise in trade between China and Africa, it is important to understand the constituents of this trade.

Firstly, Sino-Africa trade is highly concentrated by country. As of 2011, approximately 60% of Chinese exports are destined for only six countries in Africa: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), Morocco (6%) and Benin (5%). At the same time, 70% of Chinese imports originate from just four countries: Angola (34%), South Africa (20%), Sudan (11%) and the Republic of Congo (8%). Therefore, the notion that China ‘is buying up Africa’ is not necessarily true – there are specific regions and countries that have large Chinese economic interests, which are the main recipients of Chinese trade partnerships.

Secondly, Sino-African trade is highly concentrated by type of good, although there are increasing signs that this may be changing. As expected, Chinese trade with Africa is predominantly resource based, with 20% of China’s total imported crude oil deriving from Africa in 2012. Historically, China has shown little economic interest in non-mineral rich African nations, a fact that is less true of the US, which provides broad-based economic aid to countries throughout the continent. However, China’s premier,

Li Keqiang’s tour of Africa in May of this year not only included visits to oil-rich Angola and Nigeria, but also to Kenya and Ethiopia, two countries with comparatively modest crude deposits. This is perhaps evidence of a gradual evolution in Chinese investment focus across Africa, away from being purely resource orientated, and towards the manufacturing and services sectors.

Thirdly, there is an increasingly accepted view that Chinese trade is re-enforcing the lack of export diversification in many African countries. As the economist, Barry Eichengreen argues, the impact of China on an African economy depends heavily on the commodity specialisation of each country. In the last decade, countries that export labour intensive goods have been negatively affected by Chinese trade, whereas countries that export oil, metals, cotton, and log timber have benefited enormously. Many recent studies have shown that Chinese exports have crowded out textile manufacturing in countries such as Ghana, South Africa, Madagascar and Kenya. There are obviously distributional impacts within African economies which need to be better understood as China’s engagement with Africa grows.13 As this long-term engagement develops, we should expect to see China diversifying into more sectors.

“There is an increasingly accepted view that Chinese trade is re-enforcing the lack of export diversification in many African countries.”


Figure 14: Chinese trade with Africa

Source: IMF
c. Special economic zones

In addition to a growing trade relationship, SEZs serve as an important tool for Chinese investment in Africa.

Figure 15: Special economic zones in Africa

Source: PPIAF”"14

SEZs played a significant role in bolstering Chinese economic growth during the early 1980s when it underwent its economic transition. Starting with four SEZs in south-east China in 1979, there are over 100 zones today, accounting for more than 22% of GDP and 50% of FDI in 2007. Given the success of China’s SEZs as a tool for attracting FDI and promoting export-orientated industrialisation, there has been significant interest in Africa to replicate the Chinese success.

According to the World Bank, SEZs are “geographically delimited areas, administered by a single body, offering certain incentives (including more liberal and simplified economic regulations) for businesses that locate and operate within the zone”. In general, SEZs offer serviced land, quality infrastructure, expedited customs and other incentives to attract foreign businesses to operate within them.

As of 2011, there were 114 economic zones in SSA in over 30 countries – though most are traditional export processing zones (EPZs) and industrial parks (IPs), which differ significantly from the Chinese SEZs. These economic zones have not been successful in delivering their intended goals of economic diversification, attracting investment in manufacturing or services, and facilitating structural economic change. Table 2 estimates the direct employment and export value of SEZs in selected regions from 2004-2006.

Table 2: Employment from SEZs in Africa

<table>
<thead>
<tr>
<th>Region</th>
<th>Direct employment (million)</th>
<th>Exports (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.0</td>
<td>8,605</td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>61.1</td>
<td>510,666</td>
</tr>
<tr>
<td>Americas</td>
<td>3.1</td>
<td>72,636</td>
</tr>
<tr>
<td>Central and East Europe and Central Asia</td>
<td>1.6</td>
<td>89,666</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>1.5</td>
<td>169,459</td>
</tr>
<tr>
<td>Global</td>
<td>68.4</td>
<td>851,032</td>
</tr>
</tbody>
</table>

Source: PPIAF

The Chinese government announced the establishment of four SEZs in 2006: two in Nigeria, one in Ethiopia and one in Mauritius. Since then, zones in Zambia and Egypt are operational. A detailed analysis of these SEZs can be found in a recent report from the World Bank, but the main conclusions are as follows:

15 Ibid
China's establishment of SEZs in Africa was highly anticipated by governments in Africa. Given the mediocre results until that point in improving technology transfer, export diversification and employment, there was a high expectation that the Chinese would be able to improve management and operations of SEZs in reaching their goals.

The establishment of China's SEZs in Africa has been quite effective so far. Under the auspices of the Ministry of Commerce (MOFCOM), the Chinese government provided attractive incentives for both businesses and developers of SEZs, including: subsidies of up to 30% of development costs, diplomatic support in working with host governments and the ability to apply to the MOFCOM fund for a rebate on up to 100% of interest paid to Chinese bank loans. Although MOFCOM emphasised the need for investment in SEZs to be based on “market conditions”, they still had a significant role to play in facilitating investments.

There are many similarities between the SEZs that China has invested in: they are located relatively close to the economic capitals of countries and key infrastructure assets; they are of a similar size at approximately 100 hectares; their ownership is dominated by consortiums of three to six Chinese business partners; Chinese official investments were primarily for on-site infrastructure and based on the expectation that host governments would provide off-site infrastructure investments; they involved high level political support from all governments involved.

There are early signs that these SEZs are beneficial to Africa. Trade between China and Nigeria, Mauritius and Ethiopia has increased at a faster rate than with the rest of the continent. In addition, in contrast to Chinese trade with SSA as a whole, China has recorded trade surpluses with all three countries since 2006. This would strongly suggest that SEZs can play a significant role as logistics and production platforms for Chinese businesses in Africa.

However, there remain significant challenges; local African governments have not been able to provide sufficient infrastructure outside SEZs; administrative barriers and a lack of regulatory frameworks have slowed down SEZ development and finally, and most importantly, local African businesses in labour intensive industries are feeling the competition of Chinese companies now operating on preferential status in their countries. How long this will continue remains to be seen.

The SEZs are a major, and growing, element of China's involvement in Africa. It exemplifies an 'eastern' economic development model as opposed to the neo-liberal policies of Western organisations. Looking ahead, foreign investors should keep an eye on how these SEZs are a) contributing to African export diversification, b) encouraging manufacturing and service skills and c) integrating with local economies.

“There are early signs that these SEZs are beneficial to Africa.”
d. FDI and infrastructure

Chinese FDI towards Africa is a vital component of the two regions’ economic relationship. FDI data, however, is notoriously poor – in both China and Africa. Numerous academic studies have sought to better understand the nature of Chinese FDI into Africa, but none have been able to provide clear data. Despite the lack of clarity, we do know the following: a) FDI is increasing significantly as Chinese businesses are investing heavily into Africa, b) FDI is similarly concentrated to trade, and c) China is a major infrastructure investor but not the only player in the infrastructure space. China is going through a transition from bilateral to regional infrastructure projects, which will test the long-term efficacy of Chinese infrastructure investments in Africa.

Key statistics regarding China – Africa FDI are as follows:

- Total Chinese FDI to Africa has increased approximately 125% year on year between 2004-2012, increasing from $317 million to $2.5 billion.18
- During this period, however, the concentration of Chinese outward FDI hardly changed. In 2010, the top 10 recipients of Chinese FDI accounted for 76.3% of its total FDI to Africa. In 2004, the top 10 recipients received 90.3%.

In regards to infrastructure investments, the Africa Infrastructure Country Diagnostics (AICD) study estimated that Africa needs $93 billion per year to address the deficit in this sector. China has been playing a significant role in infrastructure financing as the largest bilateral source of financing for African infrastructure projects. According to the AICD report, in 2009, total commitment for infrastructure in Africa was $38.4 billion, with $13.7 billion committed from the G8, $11 billion from China and approximately $11.4 billion from the private sector.

According to the African Development Bank, “China’s infrastructure investments could be more supportive of African integration. China typically works on a bilateral basis in support of national infrastructure plans that may not adequately take into account potential benefits from regional cooperation…often regional projects are overlooked.”20

Africa’s share of Chinese outward FDI has tripled from 1% in 2000 to 3.5% today. However, despite the dramatic increase in FDI, it is important to note that FDI constitutes a fairly small percentage of Chinese overall investment in Africa, as well as China’s total inward FDI.

- China’s percentage of total inward FDI into Africa in 2010 was less than 5%.19


18 UN data http://unctad.org/Sections/dite_fdistat/docs/webdiafrica2014d3_CHN.pdf
iv. Brazil’s role in Africa: a knowledge partnership

Over the past decade, Brazil has made Africa a major pillar of its foreign policy in trade, investment, aid and more. Former president of Brazil, Luiz Inácio Lula da Silva, made twelve official visits to Africa during his eight years in office, making him one of the most widely-travelled heads of state to Africa. Remarks made by Lula in 2009 effectively capture Brazil’s orientation towards Africa:

“Brazil is not coming to Africa to expiate the guilt of a colonial past. We also don’t see Africa as an extensive reserve of natural riches to be explored. Brazil wants to be a partner for projects of development. We want to share experiences and lessons, add efforts and unite capacities.”

Brazilian economic engagement with Africa has a markedly different dynamic to that of China or the US. Brazil shares many characteristics with parts of Africa: language (Angola, Cape Verde, Guinea-Bissau, Mozambique etc.), a large resource base, tropical agricultural issues, poverty and impacts of environment degradation and climate change. As a result, Brazil is a natural partner to African nations as they navigate these challenges.

a. Trade

Between 2001 and 2011, Brazil-African trade increased by approximately 600%, from $5 billion in total trade to approximately $30 billion in 2011.21 Like China and the US, Brazilian imports from Africa are highly concentrated in resource countries, with over 90% of imports being in oil and other natural resources from Nigeria, Angola, South Africa and Libya. However, unlike China, Brazil has large reserves of its own natural resources. As a result,

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Key insights:
- Brazil’s trade orientation towards Africa is driven by a desire for Africa to be a consumer market for manufactured Brazilian goods, not for its natural resources.
- Brazil’s trade and investment is still highly concentrated on natural resources, as well as Portuguese-speaking former colonies.
- The most exciting element of Brazil’s policies in Africa is its role as a development partner on issues related to agriculture, health and energy – three key issues for African long-term growth.

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“Brazil is not coming to Africa to expiate the guilt of a colonial past. We also don’t see Africa as an extensive reserve of natural riches to be explored. Brazil wants to be a partner for projects of development. We want to share experiences and lessons, add efforts and unite capacities.”

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Brazil’s interest in African natural resources is geared towards enabling Brazil’s largest enterprises to diversify away from the Brazilian market, as opposed to securing natural resources for its own growth. Whereas Brazil was highly dependent on African oil in the 1970s and 1980s, recent oil discoveries off the coast of Brazil will mean a significant change in trade dynamics with Africa in regard to this commodity. Evidence of this can be found in changes to Petrobras’ investment strategy; between 2007 and 2011, Petrobras planned a doubling of investment in Africa, whereas the current plan to 2015 calls for 95% of total investment to go to activities in Brazil.

The chart below highlights Brazil’s growing trade with Africa. Brazil sees Africa as a key resource in its goal of export diversification. As Chatham House reports, “Brazilian business representatives maintain that Africa’s biggest potential for their

Figures 16: Brazil-Africa trade

Source: IMF
country lies in the export of machinery, technical equipment and construction materials". Today, 42% of Brazil’s exports to Africa are manufactured goods, higher than the corresponding 36% for Brazil’s overall export portfolio. A Brazilian government representative is reported as saying: “China is going to Africa after … copper, iron, manganese as well as oil and gas. We are going after the vacuum left by them”.  

**b. Investment**

There are two key points to understand about Brazilian FDI into Africa concerning its size and concentration.

Despite its increasing trade relationship with Africa, Brazil remains a small investor in terms of FDI into Africa. Brazilian FDI into SSA amounted to only $281 million in 2001 and $124 million in 2009, approximately 1/15th of FDI flow from China and 1/20th from the US. This is indicative of an important point: Brazilian economic strategy in Africa is not driven by private sector investments. Though growing, this is still a small element of Brazil’s engagement with Africa.

Brazil’s FDI is driven by the presence of six companies involved in infrastructure and energy and mining industries in Africa: Andrade Gutierrez, Camargo Correa, Odebrecht, Petrobras, Queiroz Galvao and Vale. Odebrecht, the Brazilian construction company, has the largest number of projects in Africa, with a presence in South Africa, Angola, Botswana, DRC, Djibouti, Gabon, Liberia, Libya and Mozambique.

In terms of concentration, Brazilian FDI is still heavily concentrated in Portuguese-speaking Africa, particularly Angola and Mozambique.

Angola, in particular, has deep ties with the Brazilian government, as well as major businesses, as can be seen from the map below. Petrobras was one of the first companies to invest in Angola after it gained its independence in 1975, and was soon followed by Odebrecht and others. Brazilian investment in Africa is even more focused than that of China and the US.

There is one important note to add here: Brazilian companies enjoy an image of being much better corporate citizens than their Chinese counterparts. As reported by the World Bank, “their business models tend to hire locals for their projects and develop local capacity, which improve the quality of services and outputs”. Odebrecht, for example, has become the largest private employer in Angola, and many senior positions are held by locals within its Angolan operations. Over the past few years, Chinese businesses have come under significant scrutiny for their treatment of local workers and lack of local hiring.

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Figure 17: Brazilian engagement in Africa

Source: World Bank23

c. Brazil’s focus – knowledge partner

Though Brazil certainly has very strong commercial relationships with African nations, the standout characteristic of its engagement is its role as a knowledge partner. This cannot be understated, and is arguably at the centre of Brazilian strategy in Africa. As the academic, Christina Stolte succinctly writes, “Brazil has positioned itself vis-à-vis Africa as a partner for development, rather than a business partner”.

Before discussing the details of the technical cooperation of Brazil and Africa, it is important to state the fact that Brazil thinks about its technical cooperation in a highly strategic way. On a near-term basis, Brazil believes that by elevating itself as a leader among developing nations, Brazil may gain political and diplomatic clout, including a permanent seat in the United Nations Security Council. On a more conceptual level, Brazil is pushing the ‘South-South’ agenda. Instead of the traditional ‘North-South’ aid and development paradigm, Brazil believes that the answers to development challenges should originate from fellow developing nations.

There are three main areas of technical co-operation and assistance between Brazil and Africa: tropical agriculture, tropical medicine and energy.

Tropical agriculture: Africa suffers from a severe food shortage. Despite abundant fertile land, Africa has gone from a net food exporter in the 1960s to a net food importer today. Brazil, at the same time, has gone in the opposite direction. Given the similarities between the climate, ecology and geological formations in Africa and Brazil, Brazil has become a major source of knowledge transfer on agricultural issues for Africa.

In 2008, Brazil’s national agricultural institute, EMBRAPA, opened its first office in Ghana. Since then, EMBRAPA’s work has spread to over 15 countries on the continent and is providing free knowledge transfer in soil improvement, seed adaptation and more. It is also leading projects to replicate successes in the Brazilian savannah and improve agribusinesses in Africa. One such example is the Cotton 4 Project, a model cotton farm that aims to increase productivity and quality in Benin, Burkina Faso, Chad and Mali.

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Tropical medicine: Brazil has signed 53 bilateral agreements on health-related issues to over 22 countries in Africa. Brazil’s health partnership focuses on two major issues: HIV/AIDS and malaria. Since kick-starting a highly successful package of HIV/AIDS prevention initiatives in Brazil in 2003, prevalence has fallen significantly. Most projects are currently on a small scale, but Brazil plays a major role in helping formulate health policies in countries around the continent.

Energy: Brazil’s engagement on energy issues with Africa is centred on two major pillars: energy independence and electricity.

On the energy independence issue, it is important to understand Brazil’s own history. In the early 1970s, Brazil was dependent on imports for approximately 80% of its energy needs. However, through major investments in energy technologies, including biofuels and deepwater drilling, Brazil became energy independent, and is now a net exporter. As a result of this transformation, Brazil has been sought after by energy-importing African nations for its guidance on energy-related issues.

As a result, Brazil now offers its energy technology, particularly concerning biofuels, to African governments including Ghana, Angola, DRC, Kenya, Mozambique, Nigeria, Senegal, Sudan, Uganda and Zambia. These initiatives are spearheaded by EMBRAPA. Two specific initiatives that have come out of these partnerships include the building of a ‘biofuel town’ in Nigeria, inhabited by rural migrants who are training to become biofuel producers, and the creation of a joint venture in Angola called the Bioenergy Company of Angola, which will produce 30 million litres of ethanol and 250 tonnes of sugar per year. As countries seek to decrease their dependency on high-cost oil, we should look to Brazilian-backed energy technologies as a possible source for future development.

“Brazil’s engagement on energy issues with Africa is centred on two major pillars: energy independence and electricity.”

“More than 90% of rural Africans do not have access to modern energy systems, and it is estimated that the total electricity generation is less than that of Spain.”
Another area of partnership is charcoal. SSA produces and consumes approximately 25 million tonnes of charcoal a year – more than any other region in the world – which is used primarily for cooking in urban households. Brazil produces and consumes 9 million tonnes a year – more than any other country in the world. Given the forecasted doubling of African charcoal use by 2030, new technologies and efficiencies from Brazil will be highly useful to African nations as they urbanise.

As previously mentioned, SSA suffers from a significant lack of electricity production capabilities. More than 90% of rural Africans do not have access to modern energy systems, and it is estimated that the total electricity generation is less than that of Spain. In 2003, Brazil launched its own ‘Light for All’ programme, which, according to the World Bank, is "the biggest and most ambitious electric inclusion programme in the world", having provided electricity to over three million Brazilian rural families in the past ten years. This programme is now being adapted for the African context, and has been started in Mozambique, Angola and other countries.

Lastly, it is important to note that Brazil's total amount of development aid to SSA is still quite small – approximately $1 billion per year (as opposed to around $2 billion from China and $8 billion from the US). But there are two points to note: there is a high, and growing, concentration of Brazilian aid to Africa as can be seen in the chart; this aid comes in the form of knowledge and technical assistance, which has a much more significant, long-term return on investment than other forms of aid.

Figure 19: Brazilian investments in international development projects

<table>
<thead>
<tr>
<th>Year</th>
<th>Africa</th>
<th>Latin America</th>
<th>Asia and the Middle East</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>50.1%</td>
<td>39.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>2010</td>
<td>57.2%</td>
<td>37.4%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source: World Bank

v. Europe’s role in Africa: major trade partner and aid provider

“Europe remains strongly committed to the economic and social development of African countries and will continue to promote growth through increased trade and investment.”

José-Manuel Barroso, President of the European Commission

a. Donor-recipient relationship

From 2007 to 2013 the EU remained Africa’s biggest development partner: the ODA disbursed to Africa by the EU and its Member States is estimated at around €141 billion\(^26\). In 2012, 45% out of €41 billion of ODA received by Africa came from the EU and 40% of the EU’s collective ODA went to Africa. The EU and its Member States collectively are the biggest contributors to the African Union’s budget, supporting approximately 80% of the African Union Commission (AUC) program budget.

b. Trading partners

The EU remained one of Africa’s largest trading partners. In 2012, 28% of Africa’s total trade took place with the EU. The EU was Africa’s primary source of imports (26% of total African imports) and also its primary export market (31%). According to some estimates, there was $137 billion of trade between Africa and Europe in 2013, whereas others estimate a much larger economic interaction between the two regions at approximately $400 billion in 2012. Despite the significant variability within these figures, it is clear that Europe is a major trading partner with Africa, although its role will likely be eclipsed (or may already have been) by China.\(^27\)

Key insights:

- The EU remains an important trading partner for Africa and its most important donor.
- However, while the EU’s share of total ODA to Africa continues to rise, its share of total trade with Africa is in decline.
- The political framework for the EU’s engagement in Africa explains these trends – its continued emphasis on being an aid partner means it is losing ground in the competition to become the largest trading partner.

“Europe remains strongly committed to the economic and social development of African countries and will continue to promote growth through increased trade and investment.”

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\(^{27}\) Various press agencies – including the Christian Science Monitor and China-US Focus – reported Europe-Africa trade at $137 billion for 2013, whereas the European Union uses a significantly higher number of EUR 339 billion for 2012. Differences likely reside in country designations.
However, the relative importance of the EU as a trading partner has been in decline. Figure 20 below shows that the EU’s share of trade with sub-Saharan Africa has been in steady decline since its peak in 1960.

c. Political framework

Africa ranks high amongst European international priorities. The first EU-Africa Summit took place in 2000 in Cairo with the second one following in 2007 in Lisbon. There, the Joint Africa-EU Strategy was signed, which continues to be the political framework for EU-AU relations. It encompasses eight policy areas in which development is envisaged: peace and security; democratic governance and human rights; regional economic integration, trade and infrastructure; Millennium Development Goals (MDGs); energy; climate change; migration, mobility and employment; and science, information society and space.

Figure 20: Share of European trade with Africa

“From 2007 to 2013 the EU remained Africa’s biggest development partner.”
The EU’s development policy is aimed at promoting the EU’s common norms and values, enshrined in the EU Treaties (e.g. human rights, democratic principles and good governance). Aid delivery is strongly linked to compliance with these norms and values, and violation of them may result in the suspension of development aid.

The EU’s approach to Africa’s development has been centred on the achievement of the Millennium Development Goals by 2015 – which is incorporated into the language of the Joint Africa-EU Strategy. Emphasis has thus been placed on social infrastructure in contrast to China’s focus on economic infrastructure.

d. Foreign investors in Africa: new frontiers through synergies

Foreign investors have always played a major role on the African continent. Starting with colonial rule, Africa has been an economic and investment source of interest for sovereign nations around the world. Over the years, much has changed, yet much remains the same. Africa remains a vibrant investment destination, due to its vast investment opportunities, rising middle class, enormous natural resources and more.

As major investors in the continent, we believe that it is imperative to understand the operating frameworks of foreign nations and their investment, trade and aid policies towards Africa. As we look at the roles of China, the US, Brazil and Europe, we are very excited about the possibilities that might emerge if these nations invest in Africa in a co-operative and sustainable manner.
Heirs Holdings is a unique success story within Africa. Can you tell us about how you built the company – and your foundation – to where it is today and what your keys to success are?

We are largely driven by our love for the continent and the developmental impact we see investments having on the continent. We decided to set up Heirs Holdings to make long-term investments in key sectors in Africa. At the same time, we wanted to support entrepreneurship and business leadership as a way of creating a new Africa driven by the private sector. So we started the Tony Elumelu Foundation as well. Today, we have established ourselves as a leading investment company with landmark investments in key sectors and the Foundation has redefined the way philanthropy is viewed on the African continent.

Africa is home to some of the fastest growing economies in the world, which will bring increased amounts of foreign interest to the continent. Do you feel that foreign investors can play an active role in sustainable development, and import new skills into the continent, or should foreign businesses stay clear of development?

We think that, as far as Africa is concerned, foreign direct investment should have a developmental bias. This is the bedrock of the principle of ‘Africapitalism’ that we preach. Investments in the continent should be long term and in key sectors that have a transforming effect on the development of the continent. This is the only way to achieve sustainable and meaningful returns in Africa. A short-term approach and investments in extractive models will not create sustainable returns and will continue to impact the continent negatively.

What patterns/trends do you see in engagement of foreign businesses and investors in Africa? Is it markedly different than counterparts from other regions of the world? What would be the one or two things that both the US government as well as African governments could do to improve business relationships between the regions?

We think that government has a major role to play in fostering investments into the continent. This role should be focused on creating the enabling environment that will allow investments to thrive. Policy, regulation, security, social infrastructure and institutional development are key areas where governments need to channel efforts. In order to improve business relationships, it is key that both the US and African governments work on creating an enabling environment for investors on both sides to facilitate investments in Africa.

“Investments in the continent should be long term and in key sectors that have a transforming effect on the development of the continent. This is the only way to achieve sustainable and meaningful returns in Africa.”

GDP per capita is the most frequently used tool to measure a nation’s development, but does not always reflect the reality on the ground. How would you think about new ways of analytically understanding African progress, beyond just GDP growth rates?

GDP is a great tool that measures the wealth of a country; however, it is also important to measure how much of that GDP is generated from domestic value creation and how much has translated to bridging the inequality gap. We are developing what we call the Africapitalism Index, via our recently launched Africapitalism Institute, which is an empirical comparison of policy frameworks in different African countries, based on the extent to which they facilitate the creation or multiplication of GDP.
of local value in the private sector. We aim to
hold countries accountable to this index as a
means of encouraging the practice and pursuit of
Africapitalism, which will invariably propel Africa.

You are a supporter and investor in the power
sector and are spearheading a number of
initiatives to address the energy deficit in Africa.
What are some of your plans with Power Africa
and what do you think would be the two or three
most effective things investors and governments
can do to solve Africa’s power problems?

Part of our $2.5 billion commitment to the Power
Africa initiative is channeled through our power
generating plant, based in Ughelli, Delta State,
Nigeria. In less than three months after the
acquisition of the plant, under the management
of Transcorp Ughelli Power Limited, we had more
than doubled electricity generation from 100Mw
to 360Mw. Our new target is to increase power
generation at the Ughelli plant to 2,000Mw within
two to five years. Some of the most effective things
we believe governments can do to solve our power
problems are:

1. Continue to provide incentives to invest in the
power sector while at the same time continue
efforts to completely divest itself from the power
business.

2. Provide effective regulatory oversight to the
power sector by ensuring that each party in the
ecosystem plays their roles in line with the rules.

3. As gas is the major source of power generation
in the country, there is a need for government to
facilitate an environment that would allow for the
development, production and effective distribution
of gas.

What are the biggest challenges you see for
African economies to attract foreign investors
and capital?

Limited insights into the numerous economic and
business investment opportunities available in
Africa for foreign investors is a large factor. There
are many nuances, policies and frameworks that
one must have an understanding of – in order to do
business successfully in Africa. This all boils down
to trust. Many foreign investors do not have the right
information or strategic alliances on the ground in
Africa to take advantage of business investing. So,
while on the one hand there is increasing awareness
of the countless business opportunities in sub-
Saharan Africa (SSA), for some foreign investors
there is still a reluctance or hesitation to jump in.
For this reason, we at Heirs Holdings are committed
to being a strategic local partner that can offer
insight and deliver value to our foreign partners,
based on our expertise and operating track record.
We see some of the infrastructural challenges that
the continent faces as windows of opportunity
which, with the right investment partners, tools and
know-how, can be used to garner financial success
and help attain a positive business and social impact
on the continent.

Are you seeing countries on the continent deal
successfully with the issues of climate change and
population growth, both of which will dramatically
affect Africa over the next generation?

Given Africa’s recent emergence as a viable market
place for direct foreign investment and infrastructure
development, the subjects of population growth
and climate change have not risen to the level of
attention that they have in other parts of the world.
That’s not to say these are not important subjects
in Africa, they certainly are; we are experiencing our
fair share of strange weather phenomenon, from
extreme rains and flooding to extreme drought,
depending on your geographic location on the
continent. It’s just that we are focusing our still very
limited resources on the core basic needs right now of food, via agriculture, shelter (housing) healthcare, basic education. As the institutions providing these services become more stable and consistent in their service deliveries, I’m very confident that you’ll see a more defined pivot towards other key issues, like population growth and climate change.

As a business leader with investments across the continent you are no stranger to the challenges of intra-Africa trade and the movement of goods and people. If you could solve Africa’s regional integration problems in three key steps, what would they be?

1. Policy harmonisation on broad areas by African governments that will facilitate integration. This is a key role for the regional economic organisations like ECOWAS, SADC, EAC and the AU.

2. Integration of the financial system to allow for free flow of payments which will drive trade and other economic activities.

3. Connecting transportation infrastructure that will facilitate easy movement of goods and services across the country. This will include road, rail, ports and air.

What is the biggest lesson that the rest of the world can learn from African success stories?

More than anything, it is resilience. And I say this, not because Africa should be pitied as the economic laggard or underdog, but rather, in spite of our challenges, we continue to progress. Today, more than 70% of SSA lacks access to electricity. Nigeria’s GDP rebase, as Africa’s largest economy, was achieved in spite of irregular electricity. The heart of our nation is that of resilience and the ability to achieve against the odds.

“The heart of our nation is that of resilience and the ability to achieve against the odds.”
Various studies have underlined the critical importance of regional integration as a potential driver of sustained growth in Africa. While the integration agenda is complex and efforts to forge closer economic links between African nations often run into political stumbling blocks, most observers agree that significant efficiency improvements and productivity gains can be achieved through an innovative group of industries linked by a common trade or resource, the ability to adapt to regional macroeconomic elements, and an increased bargaining position. This in turn will lead to increased investment in the region and further foster growth of the particular regional industries. Africa is well positioned to capitalise on these benefits. A simple integration agenda centred on the following four cornerstones will accelerate Africa’s path to regional integration (summarised in Table 3):

### Table 3: Key challenges affecting companies – what regional integration can achieve

<table>
<thead>
<tr>
<th>Key challenge</th>
<th>Why it matters to companies</th>
<th>What governments can do</th>
</tr>
</thead>
</table>
| **Reduce tariff barriers across the region** | • Incomplete liberalisation across product lines and onerous tariffs on protected goods is a major cost to operating in the region  
• Inconsistent tariffs between countries in the same region disrupt trade | • Reduce or phase out protection on sensitive products  
• Harmonise tariff levels within regional communities |
| **Address non-tariff barriers at borders and instituted through trade policy requirements** | • Application of non-tariff measures negates the benefits of tariff liberalisation  
• Delays, corruption and inefficiencies restrict the volume of trade and increase the cost to the consumer | • Identify non-tariff barriers at borders and at customs  
• Simplify trade policy and trade administration requirements  
• Improve monitoring of corruption |
| **Develop better infrastructure along regional corridors and key entry points** | • Insufficient maintenance and investment in regional road corridors obstructs intra-regional trade  
• Lack of capacity at key ports in the region results in costly delays  
• Absent rail connectivity between regions limits the market for regional goods  
• Protections over air traffic stifle the growth of regional air networks  
• Better integrated regional infrastructure would link markets together creating the scale required to attract further investment | • Promote private sector investment in regional infrastructure  
• Create regional institutions tasked with management of shared corridors |
| **Develop regional power infrastructure and capacity** | • Outages and irregular supply are a significant and costly impediment | • Cooperate on regional power sharing initiatives |

Source: Investec Asset Management
i. **Addressing tariff levels:** the removal of tariffs on goods traded between countries is generally the first step taken to liberalise trade across borders. The justification typically given in economics for removing protectionist tariffs is to achieve more open and competitive trade as well as to facilitate greater flows between countries. It is important to note that sub-Saharan Africa has followed the rest of the world in gradually liberalising trade through tariff reductions over the past decade. However, taxes on trade still amount to roughly 24% of revenue on average for African governments. Additionally, despite liberalisation within regional economic communities (RECs) in Africa, there currently is very limited liberalisation across RECs and individual communities still retain external tariff walls among one another. Eliminating applied tariffs can increase regional welfare by 0.11% each year.1

ii. **Removing non-tariff barriers:** though there has been a reduction in multilateral, regional and bilateral tariffs among countries and regions in sub-Saharan Africa, non-tariff barriers are now almost universally viewed as an even greater constraint to trade since they decrease the benefit from greater market access achieved through tariff reductions.2 Lengthy customs procedures, a lack of harmonisation policies and restrictive rules of origin compound the challenges faced by companies as a result of weak physical infrastructure (see Table 4). The impact of corrupt practices, including ubiquitous roadblocks, should not be underestimated. Together all these barriers contribute to the higher cost (in both time and expenditure) of trading across borders in sub-Saharan Africa compared to elsewhere in the world.

Table 4: A taxonomy of non-tariff barriers impacting companies

<table>
<thead>
<tr>
<th>Standards</th>
<th>Trade policy</th>
<th>Documentation requirements</th>
<th>Business environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality conditions and standards</td>
<td>Import bans</td>
<td>Determination of eligibility for a company or country</td>
<td>Operation safety and health regulation</td>
</tr>
<tr>
<td>Sanitary and phyto-sanitary conditions</td>
<td>Product quotes</td>
<td>Certificate of Origin or Certification of Authenticity</td>
<td>Employment law and local employment requirements</td>
</tr>
<tr>
<td>Packaging and labelling requirements</td>
<td>Anti-dumping measures</td>
<td>Import licenses</td>
<td>Corrupt or lengthy customs procedures</td>
</tr>
<tr>
<td>Incorrect tariff classification</td>
<td>Complex/discriminatory rules of origin</td>
<td>Visa and immigration requirements</td>
<td>Limited and uncoordinated customs working hours</td>
</tr>
<tr>
<td>Onerous quality inspection procedures</td>
<td>Complex regulatory environment</td>
<td>Delayed issuance of certification marks</td>
<td>Cumbersome procedures for verifying imports</td>
</tr>
<tr>
<td>and testing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State subsidies or fixation of import prices</td>
<td>Third party cross border insurance schemes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Buy local” policies</td>
<td>Cross border and overland vehicle permits</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 UNDP, 2011, *Regional Integration and Human Development: A Pathway for Africa*

2 Keane, J., Cali, M. & Kennan, J., 2010, *Impediments to Intra-Regional Trade in Sub-Saharan Africa*
iii. Developing transport infrastructure: according to the African Development Bank, greater infrastructure development has the potential to sustain growth over the coming decade. The region’s transport network is largely fragmented and company access to roads, railways and ports is limited on account of low levels of investment and maintenance as well as limited coordination within and among countries. Consequently, as shown in Figure 21, it costs up to 48 percent more and takes 43 percent longer to trade in sub-Saharan Africa than anywhere else in the world.

“Significant efficiency improvements and productivity gains can be achieved through an innovative group of industries linked by a common trade or resource, the ability to adapt to regional macroeconomic elements, and an increased bargaining position.”

Figure 21: Trading within SSA takes longer and is more expensive than elsewhere in the world

Cost and ease of trading across borders
Number of days; cost per container in USD, 2010


iv. **Fixing the power network**: in addition to high running and connection costs, companies also experience irregular supply, fluctuations in output and frequent outages as a result of poor domestic infrastructure. Research by the World Bank has shown that companies experience 11 outages a month across Africa, resulting in around 6% of lost sales. However, dependence on foreign imports of electricity is also problematic, particularly when foreign grids are undergoing maintenance or are unable to meet their own domestic demand.

Going forward, it is likely that the three major regional economic communities (RECs) in sub-Saharan Africa – ECOWAS in West Africa, the EAC in East Africa, and SADC in South Africa – will be the vehicle through which additional integration initiatives across the continent are driven. Figure 22 provides a snapshot of the expected economic and demographic characteristics of these three RECs in 2020. In addition to the direct reductions in the cost of doing business and cross-border trade discussed above, greater political and economic integration at the regional level will be critical to: (i) helping African markets achieve the scale required to continue being a compelling investment destination for global players, and (ii) enhancing African countries’ political bargaining power with foreign investors and trading partners, by enabling a collective approach to trade and investment negotiations.

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“*It is likely that the three major regional economic communities (RECs) in sub-Saharan Africa – ECOWAS in West Africa, the EAC in East Africa, and SADC in South Africa – will be the vehicle through which additional integration initiatives across the continent are driven.*”

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4 World Bank, *World Development Indicators, Enterprise Surveys*, 2011
Figure 22: The most important RECs across SSA

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EAC in 2020</td>
<td>180,638,000</td>
<td>USD 811</td>
<td>8%</td>
<td>10.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>ECOWAS in 2020</td>
<td>388,077,000</td>
<td>USD 1,508</td>
<td>12%</td>
<td>10.3%</td>
<td>11.4%</td>
</tr>
<tr>
<td>SADC in 2020</td>
<td>372,824,000</td>
<td>USD 4,132</td>
<td>13%</td>
<td>7.7%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Source: United Nations, Economic Commission for Africa; Canback Dangel, Global Income Distribution Database; World Bank, World Development Indicators

Note: Tanzania is both a member of SADC and EAC. The calculation of total population and average GDP per capita across SADC excludes South Africa.
Perspectives on key themes

In this section, we highlight various perspectives on key themes related to US-Africa engagement. The four chosen themes are: 1) Doing Business in Africa; 2) Reception of US and China in Africa; 3) Development and Infrastructure; and 4) Capital Markets and Financial Investing.

Contributors include:

- Johan Steyn: Managing Director, Middle East and Africa, Cargill
- Nik Nesbitt: General Manager, East Africa, IBM
- Dr. Christo Wiese: Chairman Pepkor, Non-Executive Chairman of Shoprite Holdings
- Mark Pittman: Senior Managing Director, Allstate Investments
- Jay Ireland: President and Chief Executive Officer, General Electric Africa
- Alan Davies: Chief Executive Diamonds and Minerals, Rio Tinto
- Kola Karim: Chief Executive Officer, Shoreline Energy International
- Mimi Alemayehou: Executive Advisor and Chair of Blackstone Africa Infrastructure
- Fred Hochberg: President and Chairman, US Export-Import Bank
- Donald Gips: Senior Counselor, Albright Stonebridge Group and Former US Ambassador to South Africa
- Nicky Newton-King: Chief Executive Officer, Johannesburg Stock Exchange
Doing business in Africa

This section provides insights on the key challenges and opportunities facing global businesses operating in Africa.

What does Cargill think about the business opportunities in Africa over the next 10 to 20 years? What regions are most attractive?

Johan Steyn (Cargill): With over 60% of available, viable arable land still available for agriculture, growing economies across the continent and a rising numbers of consumers, Africa presents strong business opportunities over the next decade and beyond. The agricultural sector is a key plank of Africa’s economic growth and provides incomes for millions of families, but its potential remains underdeveloped. African agriculture is dominated by smallholder farmers and we believe there are great opportunities across SSA and in West Africa to enable these small-scale farmers to grow from subsistence farming to become more productive and commercial. Thriving agricultural and food sectors will present continued opportunities for investment, business growth and job creation.

It’s been a very exciting time for you as IBM built the first ever African research facility in Nairobi. Could you give us some specific examples of what the lab’s research agenda is and why it is so different to other research and development that has been done previously on the continent? Why did you choose Nairobi to host this important endeavour?

Nik Nesbitt (IBM): Sure, let me start with “Why Nairobi?”. The IBM Research Africa team spent substantial amounts of time in 2011 and 2012 travelling through African countries to evaluate what they had to offer and finally selected Nairobi based on a few important factors:

1. Communication and an airline hub that facilitates easy access in and out of Nairobi.
2. A strong talent base of willing and capable people who are well educated and can drive the cutting edge research at IBM Research Africa Lab.
3. A supportive government open to driving R & D in Africa.
4. Local governments, institutions and businesses had an appetite to engage with researchers and participate in the grand challenges that IBM is looking to solve.
5. A rich culture of innovation as evidenced by the proliferation of startups in Kenya including iHub, iLab and Nailab.

The research lab is starting as a ‘customer led research facility’, which means that we want to develop research that is relevant, pertinent, commercially viable and can make a big difference to the region (Africa). The research is focused around ‘grand challenges’ or recurring themes for the region. Examples of these include climate change, water management, disease control, traffic, security and education.

IBM has the capability to bring our cognitive computing expertise to solving these problems, and Nairobi is the first non-US location where Watson (IBM’s cognitive technology tool) can use its capacity as a learning system for IBM researchers, entrepreneurs and external researchers to solve problems such as mother-to-baby transmission of HIV in Ghana, understanding the water tables in Nairobi, in addition to monitoring and researching traffic in Nairobi by developing algorithms to manage traffic patterns. Some of the projects have been developed and worked on in conjunction with small and growing tech-preneurs, who have capitalised on the research. Examples include “Flashcast” a real time broadcasting of advertising to people as they approach a particular retail establishment.
What are the advantages of doing business in Africa and what needs to be done to make Africa an increasingly attractive investment location? Additionally, what countries are you most bullish on and how important is it for large multinationals to differentiate their investment approach between these African countries?

Christo Wiese (Pepkor/Shoprite): Africa is the last frontier which has enormous growth potential. But with enormous opportunities comes great risk, and to use the oft-quoted comment: “it’s not for sissies”. In order to make Africa an increasingly attractive investment location, we need to address the issues such as lack of infrastructure, over-bureaucratisation, and immigration reform, by making it easier for businesses to be established and to flourish. At the moment we are most bullish on the oil economies, so definitely Angola and Nigeria. Obviously, investors have to differentiate in their investment approach between the different countries, similarly to how investors distinguish between countries in Europe and Asia as well. Each country has its own rules and consumer approaches. There have been instances where large non-African multinationals are not quite in tune with how things are done in Africa, and that is why South African multinationals do have a head start with investing into the rest of Africa.

What do you see as one major change in emerging market investing over the past 10 years?

Mark Pittman (Allstate Investments): Allstate has been investing in emerging markets for some time. Like a lot of investors, we tended to view emerging market risks somewhat generically, as something that had a lower correlation to U.S. or other developed market risks. We invested that way as well, by making broad allocations to emerging market asset classes, primarily equities. Looking back, that view probably wasn’t so far off, as many of these economies were at different stages of economic development and their financial markets were also much less developed. More recently, many of the emerging market economies have benefited from commodity demand and other common drivers that allowed them to grow very quickly, but also made them more highly correlated to global risks and each other. We are seeing a bit of an “exhale” from the pace of global demand, particularly as growth slows in Brazil and China. In this environment, it’s becoming clear that there will be differentiation among emerging market regions, countries and asset types. As Allstate invests today, we are viewing emerging markets as part of our global opportunity set while making investments on a more idiosyncratic basis, factoring in the specific market risks and opportunities.

Within the emerging markets, how do you view Africa as an investment destination?

Mark Pittman (Allstate Investments): Africa is interesting to us. The diversity across the continent and the potential for significant economic growth mean investors should pay attention. At the same time, diversity also makes it more difficult to identify and access opportunities. The difficulty in accessing African investments also can protect the value and make it worthwhile digging below the surface and away from the most public options. In frontier regions with less developed capital markets, the most public and easiest-to-access investments often are being pushed to unattractive valuations by ETFs and other macro allocators. As a result, Allstate prefers to partner with experts who have the local knowledge to help us weigh the potential return against the geographical, political, legal and other risks and provide access to some great opportunities.

What does GE think about the business opportunity in Africa over the next 10 to 20 years? What regions do you see as being the most attractive?

Jay Ireland (GE): We’re very positive on the potential in Africa. Growth will be tremendous across the board – not just the sectors that we compete in. The
middle-class growth is likely to be very strong. I think the biggest growth of Africa is going to occur later this decade and early next decade, as infrastructure improves and there is positive momentum.

As far as geographies, I think obviously you’ve got a couple of key elements. The first is demographics; Nigeria and Ethiopia have very large populations which will be supportive for growth. The second is regional co-operation; there are 54 African countries which can all share in the growth, but it is going to be very difficult without regional co-operation around infrastructure – power, logistics, ports and so on.

What do you see as the biggest mistakes that international business make when they try to enter Africa?

Jay Ireland (GE): Companies need to get a few things right. First they need to have a local presence. That does not mean just having a ‘Shell office’ in a country. You need to have people that make decisions locally or people that can make decisions in the company that are locally located. They are the ones who understand what is going on in the market itself.

The second is the realisation that you can’t go into Africa and just expect to sell. You’ve got to do a combination of things: you must have a holistic attitude around how you approach the markets from a standpoint of building up the foundations of the local economy. There has often been the feeling of exploitation by local governments. You need to partner with them and make sure you’re working with them. Most countries are looking for more local employment. As a foreign company you must foster that.

What is the biggest mistake that global businesses/investors make when entering a market like Africa?

Alan Davies (Rio Tinto): The first mistake that multinationals make is when they think Africa is one place. It’s not even 54 different places, so differentiation between markets and communities is extremely important. Global investors need a willingness to embrace and respect cultural diversity. Another big mistake that is often made is that investors don’t listen or understand the cultural background. Additionally, the welcoming for companies that partake in corrupt practices is temporary and illusionary, and it is therefore very important to understand what every party is trying to get out of a partnership in Africa.

“Global investors need a willingness to embrace and respect cultural diversity.”

Alan Davies
Reception of the US and China in Africa

This section highlights the key similarities and differences between how China and the US engage with the African continent.

How should US businesses and investors think about the challenges and opportunities on the African continent? What gives you hope? What makes you cautious?

Mimi Alemayehou (Blackstone): I find myself always telling people: you cannot look at Africa as one country. It is not. You cannot see the challenges of one country as the challenges of another, or of the continent as a whole. For example, there are many good reasons why Rwanda has attracted Foreign Direct Investments (FDI) without oil or other significant natural resources. Rwanda has done a remarkable job creating an enabling environment for foreign investment.

Many African countries have taken very bold decisions of macro economic reform, prescribed in large part by the IMF and World Bank. This has led to balanced budgets, low levels of debt – many of the same issues that parts of Europe today are struggling with. African governments are serious about transformation, and that should be understood and remembered by American companies.

However, there are still elements that make me cautious. Most importantly, I worry that the appropriate level of investments is not being made to provide sufficient opportunities for the continent’s young population. I was in Tunisia right before the Arab Spring revolution began there. The revolution in Tunisia was more about unemployment than about democracy. There were many educated youths who could not find jobs and therefore had no hope. This is a ticking time bomb. Countries need to be a lot more focused on promoting value-added manufacturing and push other policies to boost sectors that can absorb and employ the growing young populations.

“I find myself always telling people: you cannot look at Africa as one country.”

Mimi Alemayehou

What do you see as the most significant changes in US-Africa relations over the next 20 years?

Mimi Alemayehou (Blackstone): I have had the privilege of being involved in the Africa conversation within the United States for a long time and see it develop. In 1993, when the Corporate Council on Africa was started, there were only 7 members. Today there are over 180. There is no doubt that American businesses and investors have dramatically increased their interest in Africa over the past few years. This will only continue in the years to come.

The biggest change in the US engagement with Africa will be a conscious transition away from aid and into investment. The relationship will transform into developing private sector partnerships between US investors, American companies and the continent, as opposed to simply government-to-government relationships.

Another interesting dynamic is the number of African diaspora that are leaving the US and returning to the continent. These people are taking Africa’s growth and positive trends seriously. When you look at Africa-focused investment firms or large corporations on the continent, you will see many senior executives who were born in Africa, went to American universities and then returned to Africa recently. Africans used to complain about the “brain-drain.” Today, they are benefiting from the “brain-gain.”

One element that worries me though is that not much of this talent is going into the public sector in Africa. This must change. African public sector institutions need talented individuals to maintain the recent positive momentum. This is critical.
Has America been left behind China in Africa? Can OPIC ever compete with Chinese investments in Africa?

Mimi Alemayehou (Blackstone): For many Africans, the fact that many nations – Turkey, Brazil, India, China, the United States – are all looking at Africa is a new and positive development. It means there will be more competition for the best goods, services and engagement strategy that will benefit the continent and its people.

China has played a major role on the continent. They have been a strong development partner. I was recently in Ethiopia, where I was simply overwhelmed by what China is doing there – building roads, light rail, five new airports, and various other infrastructure projects across the country and region. At this stage, I find it more relevant to look at China and the US as complementary forces on the continent. The US private sector has not been willing to provide the capital or – until recently – the business expertise at the level China and others are participating to build out African infrastructure. For example, the Millennium Challenge Corporation (MCC), a major US government initiative in Africa, awarded the building of a highway in Ghana to a Chinese company since no American companies submitted proposals. The Power Africa initiative is, however, changing this dynamic, with more and more American companies bringing their staff, knowledge and expertise to the region.

What is your take on the US versus China dynamic in Africa?

Jay Ireland (GE): China comes in with a solution. They will come in and bring the financing for the studies, the contractors, money to do the project – whatever it is to get the project to the finish line.

The Americans come in as companies. China has done a considerable amount of work around the civil works in Africa – building road, airports and, in general, being a good development partner for the continent. But I don’t look at it from the standpoint of “US versus China”. Rather, I look at it from a standpoint of a project – each project and each piece of equipment. The question is: can we compete and provide the solution technically, financially, operationally and more? If we put together a good package, we’ll win our fair share. So, we at GE are focused on bringing the full solution and using aspects of the US government – Ex-IM, OPIC, US TDA, all of which can be very helpful.

We operate in over 160 countries globally. We have a lot of investments in China. In some instances, some of our Engineering, Procurement, Construction (EPC) partners will be Chinese companies that then bring in GE equipment for their projects around the world, including Africa. That adds another layer of complexity.

“The question is: can we compete and provide the solution technically, financially, operationally and more? If we put together a good package, we’ll win our fair share.”

Jay Ireland
How have you seen smaller American companies engage with Africa?

Jay Ireland (GE): Most of them have come in on their own specific projects. A lot of them go on trade missions and delegations and, as a result, try to do business. But there is no rule. Walmart came into Africa through the acquisition of Mass Mart, while Google, Microsoft and IBM came in directly and put up research and innovation centres.

But, right now, you see many more Indian firms coming in, especially in East Africa. Bharti Airtel has come in as a big telecommunications provider. A number of Indian medical groups, such as the Apollo Group, have come in from a healthcare provider standpoint. As a whole, we’re still not where we should be from that standpoint.

How would you define the relationship between China and Africa?

Kola Karim (Shoreline Energy): I think the Chinese are ahead of the US in terms of getting their relationship with Africa right. For a long time China did see its Africa relationship as a relatively “one way street”. Particularly from 2000 to the start of the 2008 global financial crisis, China was on a quest to fuel its growth through Africa’s resources but provided modest infrastructure investment and little else in return. Listening to the speeches from Premier Li Keqiang on his recent Africa tour, that sentiment is very different with both African and Chinese leaders talking a new game about the importance of a ‘long-term valued partnership’ and committing to helping create ‘sustainable growth’ for both China and Africa. For purchases of oil and iron ore, in addition to sizeable investments in infrastructure, new commitments are also being made to help develop local skills and local jobs. This is not an aid discussion; it is a business dialogue.

Has IBM been well-received by African businesses and consumers? Are they welcoming to large, multinational businesses entering or sceptical?

Nik Nesbitt (IBM): There has been a lot of interaction with governments across Africa and the responses towards IBM have been very positive. The Kenyan government has really embraced IBM and we spend a lot of time working and consulting with senior level government officials around a number of issues, ranging from policy to implementation of different initiatives such as agriculture, education, transport and security.

As part of our efforts in East Africa, and all over the world: we take what we learn globally, customise it and apply locally. For example, the SADC and central African countries have broadly consulted IBM on deploying the uni-visa project (single visa) in addition to advising the East African Community on what effective Visa systems should look like. When it comes to security, governments are dealing with issues such as digitisation of information and the ability to share appropriately, all of which fits with what IBM is able to do. Additionally, each year IBM brings in a group of top performing IBM staff and global executives to look at some of the issues that Africa is facing and try to solve some of the challenges. This year, one of the groups is looking at regional integration. There are also a number of external groups that IBM partner with, to look at topics such as trade barriers and illegal activities in trade.
Has Rio Tinto been well-received by African businesses and consumers? Are they welcoming to large, multinational businesses entering or sceptical?

Alan Davies (Rio Tinto): By and large the reception has been very welcoming. Governments respect our technical capabilities and environmental stewardship. Rio Tinto is known as an anti-corruption company and we will not go into a corrupt area, which gives us increased credibility. Governments that don’t want to work like that – well, it’s not our place anyways. If a government is serious about development, we bring in credibility which further enhances the development agenda. The standards and expectations for multinationals have gone up.

The foreign direct investment that comes in from a large multinational company on top of a successful project is worth more and countries are more accepting if they truly want development.

How do you see China’s role in Africa evolving? In what ways must it reform?

Alan Davies (Rio Tinto): China is focused on Africa as a source of resources to develop, and a source to diversify business opportunities away from the West. China’s role in the continent has a number of aspects: 1) funding infrastructure for resources and 2) the allocation of capital for infrastructure. That allows China to access natural resource wealth and diversify supply, whether that be agriculture or materials.

We need to act as stewards of those resources. In terms of our partnerships, we see a willingness to do that. China wants to have local partnerships – Rio has identified that opportunity, so in some cases we are partners with China (such as in our Simandou project), but other times we are competitors.

Has Cargill been well-received by African businesses and consumers? Are they welcoming to large American businesses entering or sceptical?

Johan Steyn (Cargill): There is a much greater recognition of the importance and value that private sector companies like Cargill can offer to support farmers and the development of the agricultural sector in Africa. We are already partnering with governments, organisations and communities on the ground and governments are making positive strides to encourage and attract private sector investment. That is not to say there aren’t challenges. As in any region of the world, establishing trust and good working relationships is essential and that can take time. It’s therefore imperative for an international company like us to take the time to listen, engage and understand local views, as well as to demonstrate our approach and to show value through the results of our work. It’s also imperative for governments in Africa to create and support the legal, regulatory and market frameworks that support a level playing field for investment and business growth.

“It’s therefore imperative for an international company like us to take the time to listen, engage and understand local views, as well as to demonstrate our approach and to show value through the results of our work.”

Johan Steyn
Obviously the counterpart of the US Ex-Im Bank in China is financing hundreds of billions of dollars of work on the continent. Do you think that America has been left behind in Africa vis-a-vis China? How can Ex-Im narrow that gap?

Fred Hochberg (US Export-Import Bank): China is a formidable competitor. But China’s primary interest in SSA is in extractive industries and in gaining access to mineral and other natural resources. US companies come at it very differently; we sell a product or a service and don’t have the same national interest that you see in Chinese companies.

US companies also play by the rules. We follow the OECD, which prescribes how we make loans and what the terms of those loans are. This helps us make sure that we’re not making loans to countries that really don’t have the financial ability to repay them, so that they don’t get into a debt spiral that’s not sustainable. Obviously, I’m biased, but I believe we do it in a more sustainable way and in a more transparent way, which I think is, in the long run, going to service American and African companies and interests better.

“China is a formidable competitor. But China’s primary interest in SSA is in extractive industries and in gaining access to mineral and other natural resources. US companies come at it very differently; we sell a product or a service and don’t have the same national interest that you see in Chinese companies.”

Fred Hochberg
Development and infrastructure in Africa

This section outlines perspectives on key developmental goals and infrastructure initiatives in Africa.

Given the importance of agriculture for economic development, what are you seeing in the agricultural sector that gives you hope?

Johan Steyn (Cargill): There is a greater realisation of the impact potential of agriculture in stimulating economic growth, reducing poverty and improving food availability across the continent. There are a number of international initiatives such as the New Alliance for Food and Nutrition Security and the Grow Africa partnership, as well as national agricultural policies and the Comprehensive African Agricultural Development Policy (CAADP), that are supporting investment to stimulate productivity improvements in agriculture. The importance of both public and private sector co-operation is being recognised as critical in delivering real and lasting impacts and long-term change. We are also seeing progress on the ground with farmers; today, Cargill is working with over 200,000 farmers in Africa to provide training, better seed varieties and fertilisers and a reliable market for farmers’ crops. Through these activities we are seeing farmers and communities benefiting from improved yields and crop quality, better agricultural practices and higher incomes. We believe, with continued support and investment, these results can be replicated across agricultural communities.

We are seeing an increasing amount of climate disruptions to agriculture around the world and especially in Africa. Do you see a long-term sustainability path for emerging market agriculture exporters?

Johan Steyn (Cargill): We firmly believe that sustainability is critical to the long-term success of agriculture, especially in regions like Africa. At Cargill, a responsible supply chain means the promotion of responsible agricultural practices, reducing environmental impacts, protecting the land and conserving scarce resources. Today, the bulk of African smallholder farmers live in poverty and have limited access to land, as well as the essential training, support, finance and high quality crop inputs that would enable them to improve their yields, increase their incomes and raise their living standards. Focusing on improving these areas brings additional environmental sustainability benefits. Enabling farmers to adopt better practices for economic gain also results in better land use, improved farming practices, and more appropriate use of pesticides and fertilisers. We recognise our responsibility to work closely with farmers, communities and governments to address sustainability challenges, but they are essential to long-term agricultural productivity.

The African Development Bank, Power Africa, along with many multinational companies are placing a lot of focus on building infrastructure in Africa. How will this impact the agriculture sector?

Johan Steyn (Cargill): Infrastructure development will have a significant and positive impact on the continued development of agriculture in Africa and it is often the missing link in agricultural value chain development. Underdeveloped transport, port access and energy infrastructures present a number of challenges to farmers and to those

“Africa has been so underdeveloped over the last few decades and is now in a position, with the advent of technology, to gain tremendously by leapfrogging developed nations.”

Christo Wiese
Seeking to invest in African markets. There have been a number of positive measures put in place by the African Development Bank to support infrastructure development, as well as specific initiatives such as Power Africa that, if successful, should make major differences in key markets in Africa. These investments in building and strengthening infrastructure networks is key to ensuring the foundation for business and economic growth, not just in agriculture but for all sectors, is in place. It will mean farmers can more easily access the crop inputs they need and bring their produce to market. Furthermore, it will give companies more confidence to invest in facilities that can process and bring added value to these crops in their country of origin, and in the longer term will facilitate more trade through efficient imports and exports as the production and port capacity increases.

According to the UN, Africa’s population could double by 2050, which would mean that the world’s fastest growing population and urbanisation rates would be on the African continent. What changes could we see in the African consumer?

Christo Wiese (Pepkor/Shoprite): The African middle class will follow a similar development path to middle classes elsewhere. There is, however, one distinctive feature. Africa has been so underdeveloped over the last few decades and is now in a position, with the advent of technology, to gain tremendously by leapfrogging developed nations. For example, Africa has very few landline telephones and to build up that infrastructure, as developing nations did, would have taken decades. But, suddenly, there is mobile telephony and Africa has developed into one of the world’s largest mobile telephone market, with Nigeria ranked the tenth biggest mobile telephone market. So that’s really the distinguishing feature.

When you look at micro-entrepreneurs compared to big multinational companies, do you feel that the single most important thing to prioritise is power and access to electricity?

Nik Nesbitt (IBM): For most people the issue is actually just keeping their lights on at home and in their offices, but for the large manufacturing and multinational companies, electricity supply is a big issue. The Kenyan government is trying to fix that by investing into big geothermal wells, decreasing reliance on water, while simultaneously increasing the amount of electricity that is imported from Ethiopia and the DRC. While Kenya is trying to raise the number of watts generated by subsidising electricity prices, they are also facing a dilemma as power producing companies are deterred from investing into the country due to low prices that put a squeeze on investor returns. This puts increased pressure on the amount of jobs that can be created in the power industries. For small- and medium-size enterprises, the costs of doing business are relatively high in Africa, as each business registration requires a visit to government agencies. IBM is leveraging its expertise in analytics and mobile to

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Nik Nesbitt
point governments to how they can deploy mobile apps and text type registration software for standard phones, aimed at decreasing the number of days required for business registration by using text-to-machine communication, and, therefore, not requiring Africans to travel great distances to register their businesses.

On the question of infrastructure: how are you seeing the various infrastructure capital deployment initiatives – from the Africa50 Infrastructure Fund of African Development Bank to Power Africa?

Jay Ireland (GE): There’s plenty of capital available for infrastructure projects if the projects are bankable and the right type, but you have to have a couple of things in place. The first is policy that supports the projects and improves the speed of getting things done. The second is an appreciation for the overall economic impacts of what’s being done. There needs to be economic value across the value chain. Each segment needs to have the appropriate level of financial return for investors as well as the ability to impact the populations as well.

We are hearing a lot about a potential deindustrialisation of African workers, as the mechanisation process could take away jobs from existing workers. Are you experiencing any jobs lost in the sector through mechanisation?

Alan Davies (Rio Tinto): The big value a community receives from multinationals is actually not direct employment, but rather the employment from suppliers of our operations. In south-eastern Guinea, our Simandau mining project employs 3500 people, but employment from suppliers is 45000. When you have an existing work force, it’s very hard to reduce employment, and there is generally a lack of viable work opportunities for the people that have come out of these jobs.

Accountants and finance people can leave us and get another job easily and although some miners and operators are very skilled, there are also some unskilled workers who have nowhere to go. Rio Tinto is consciously aware of that and we prefer to reduce people through attrition.
Capital markets and financial investing

This section highlights perspectives on key elements of capital market development and considerations for portfolio investors considering allocations to Africa.

Do you think private equity is having an increasingly larger role to play in the African development story and do you think there has been a crowding out of large private equity investment opportunities?

Christo Wiese (Pepkor/Shoprite): I think that private equity can be involved in the development process, but it has to be a specific type of private equity approach, whereby the investment will have to contain elements of venture capital, more than being a purely private equity player. The fact of the matter is, there are not many large businesses in Africa where you can do a standard or vanilla private equity play and see the type of returns that those businesses expect. Just to mention one: of the twenty largest retailers in Africa, fifteen are in South Africa, four in North Africa and the only other one is a Botswana company that is very small in scale. The question is really, where can the large private equity players participate? At the moment there isn’t anything to crowd out, as there is so little at the moment. However, there will be opportunities on the smaller scale, particularly if you add an element of venture capital to it.

How do American investors engage with Africa?

Jay Ireland (GE): There are a few different ways to invest in Africa. The first is through the public market, which is not really investing in Africa. The returns do not reflect the market, because most African equity markets are relatively thinly traded and, therefore, capital swings can have a dramatic impact on stock prices.

The way to play Africa for longer-term investors is project financing. If we can get a 10 to 20 year power purchase agreement around a power project, you know these returns pretty well from the onset.

“There’s a lot of potential. But you have to work with the right people, understand the partners and the project.”

Jay Ireland

As a result, financing from a returns standpoint is very good.

There’s a lot of potential. But you have to work with the right people, understand the partners and the project.

The real point is that the risk perception is way too high comparatively around projects. There are certainly risks – political, country and project risks – but in reality we’re seeing more and more of those being mitigated. I think there’s a lot of potential for great investment returns.

According to the World Bank – Angola, Kenya and Nigeria are predicted to become some of the fastest growing countries in the world, with growth rates far above the estimated global average. As their local markets develop, will increased activity on the African continent be a positive to the JSE, or rather – will it reduce activity in the South African market?

Nicky Newton-King (Johannesburg Stock Exchange): There is no objective answer to this question – the growth and development of the rest of the continent will be as positive or otherwise as we choose to make it. We have no divine right to be part of it. That said, we happen to believe that the continent’s economic growth and development provides enormous opportunities for the JSE – particularly in conjunction with the exchanges in some of the markets that you mention. We have very good working relationships with both the Nairobi Stock Exchange and the Nigerian Stock Exchange and we see these strengthening over time. In
addition, we believe that the JSE offers opportunities for companies, in these fast-growing markets, to access international capital more cost-effectively and more efficiently through a JSE-listing than a London or other listing. Likewise, we have a well-developed product set on the JSE that we think will be of interest to investors in these other markets.

How do you see capital markets developing in Africa in the future? If you are an American institutional investor, where do you see opportunities for deploying capital on the continent?

Mimi Alemayehou (Blackstone): The development of capital markets is central to any sustainable economic growth process. Over the last decade, we have seen an incredible rise in the number of GPs (General Partners) raising capital for African investments. For these investors, IPOs will be an important and essential method of exiting investments. Given the amount of money that is going into private investments in Africa, this is a major outstanding question – how will they exit their investments? What may happen is that larger GPs may come in and buy the entire portfolio of smaller GPs. Listings in stock markets are still very limited. All in all, this notion of exiting investments keeps many African GPs up at night.

On the capital markets side, there is also a need for there to be regional markets as opposed to individual national stock exchanges. That is an essential means to provide the required scale and liquidity that are key to any successful exchange in globalised capital markets. Also, African pension systems have been reforming which has helped pension funds develop. This is providing a much-needed conduit for local savings to be channeled to local and regional investments in infrastructure, as opposed to purchasing mainly government bonds, real estate and other investments generally located abroad.

A higher risk premium is often associated with a lack of transparency, low liquidity and a heightened sense of political risk in emerging markets. What can emerging market stock exchanges do to moderate these effects and entice investors to allocate assets to emerging markets?

Nicky Newton-King (Johannesburg Stock Exchange): Emerging market exchanges must ensure that they mitigate those risks that fall within their control. Thus, rules relating to market participation must be clear, consistently applied and understood. There should not be differences in treatment between domestic and international investors (where possible). There should be legal protection and certainty around transactions concluded on the exchange (i.e. those who have traded will get their shares). Exchanges should ensure that accurate data is disseminated in as ‘real-time’ as possible. Essentially, exchanges must ensure that the only risks associated with investing in an emerging market are the risks associated with the particular asset – not the operations of the market as a whole.

“Emerging market exchanges must ensure that they mitigate those risks that fall within their control.”

  Nicky Newton-King
How do you think the US business community is viewing Africa today? How have you seen that perception evolve during your career?

The US business community is seeing Africa with greater interest than ever before. I believe some of the competition that we experience from China and Europe has been a spur to more companies to see if there’s business to be done. In the previous administration, there was just less focus on really doing business in Africa.

In 2010, President Obama announced the National Export Initiative to double exports in five years. That has put exports much more firmly in the centre of business people and public official’s frames of reference. Business leaders, at all levels, who are thinking of expanding their businesses realise that exports need to be a central part of the plan.

Also, when you see extraordinary activity in Africa from China, as well as other countries, it tends to incentivise people to take a look at that. That is definitely part of it.

What are the major US initiatives in Africa that are on your radar?

In 2012, President Obama signed a Presidential Policy Directive (PPD) about focusing more effort and attention on Africa. That focused the minds of policy makers to think creatively about the region.

Power Africa is a realisation that not a lot can happen in many of these communities, if you don’t have power. It’s the basic ingredient, whether its communications, healthcare, education, transportation.

Aside from power, what are the other industries in which the US Export-Import Bank is seeing a lot of interest?

Transportation is key – from locomotives in the freight area to air transportation. The continent is vast, so you’re not going to see a lot of passenger rail, unlike in Western Europe which is a small and concentrated area. So major clients of ours have been firms like Ethiopian Airways and Kenya Airways. There are also major opportunities in healthcare, which is part of our portfolio, as well as mining equipment. Extractive industries are going to be an important ingredient for quite some time to come.

How does the role of the US Export-Import Bank in Africa compare to the work that you do in other regions of the world?

One of the very interesting elements of our work in Africa is that we have an optimal-sized small business portfolio. Last year, the Ex-Im Bank had a record number of transactions for small businesses – 188 in total, of which 90% were in Africa. This has partly to do with the large diaspora community of Africans in the US who are involved in small businesses, many of whom have family members in Africa.

But, we still have a little catch-up to play. The volume of exports from the European Union to Africa exceeds ours; the volume of exports from China to Africa exceeds ours. What we can do at Ex-Im Bank is to remove the risk – or certainly reduce the risk – of selling to that marketplace.

“The US business community is seeing Africa with greater interest than ever before.”
Let’s talk about this risk and the perception of risk versus the reality of risk in Africa. Do you think that American businesses generally have the right perception of risk in Africa? Are they worried about the right things and not worried about the wrong things?

At our recent conference, Aliko Dangote said that he thinks a lot of American companies have an archaic view of Africa. I think he is spot on. Africa today is far more stable than in the past. I’ve read that between six and eight of the fastest-growing economies in the world are in SSA. There is still a long way to go, but there are certainly more opportunities than ever before.

My other friend, David Cote, always says “capitalism is a coward”. It takes time for it to sink in that there is an opportunity. But, it is happening – the Europeans are there already; granted, a lot of that has to do with old colonial relationship, nevertheless the Chinese are there too. We’re there to make sure that more American companies can operate, export, manage the risk, and compete in Africa on a level playing field with their EU and Asian competitors.

And what has been the reception of the work of American businesses in Africa from your perspective? As you know, there is such a great need for local jobs and local manufacturing.

More and more companies are seeing the opportunities, but there is still a long way to go. Roughly speaking, 1% of US exports go to SSA, while its population is 1/7th of the world. There are some large companies that are more active – GE, Siemens, Boeing, and Caterpillar. We want to make sure that, like a ship, they create a wake so that others can swim alongside, ensuring we get more small-and medium-sized businesses exporting there as well.

We have a long history in Africa. We’re not a ‘Johnny come lately’. We have been doing deal transactions in Ethiopia, for example, since the 1940s. The US and Ex-Im have been there and been part of that growth for many decades.

On the infrastructure side, Africa is struggling. The lack of infrastructure is a significant bottleneck for growth on the continent. Can US corporations play a more substantive role in building on African infrastructure? What would that look like?

When we say infrastructure, we often talk about airports, ports, road constructions and so forth. There is great expertise in the US in those areas – whether it is ports, GPS systems, airport technology, air traffic control systems and more. In agriculture, for example, we have world-class American companies – from Caterpillar to John Deere – sharing their knowledge of the agricultural sector in the region. This is central for Africa which has a lot of arable land.

Another piece is communications, whether it is satellite technology or other services. And of course healthcare, which we talked about earlier, as well as ground transportation in terms of freight transportation. Between GE and Caterpillar, we have two of the world's paramount companies when it comes to freight movement. World-class companies are key for extractive industries going to port to create export sales and more sustainable economies.

“My other friend, David Cote, always says “capitalism is a coward”. It takes time for it to sink in that there is an opportunity.”
The key element is for African countries to grow. For that to happen, they need to have a good tax base. That comes from being able to maximise and capitalise on some of the natural resources and their labour force. Some of the work in Africa has to be done from donor nations, but I think the work that we do in exporting infrastructure and financing is creating jobs on the continent and more sustainable economies.

If you had one message to the US business community about working in Africa, what would that be?

The Ex-Im Bank is open for business. We’re open in 42 countries in SSA and stand ready to do short-term, medium-term, and long-term financing, depending on the country. We can provide buyer financing for large capital goods and, as I mentioned earlier, 90% of our work is already with small businesses. We’ve provided more loans in the last five years than in the previous ten years combined. Under President Obama, we’ve really stepped up our support of exports to SSA from large projects, like locomotive and aeroplanes, to small businesses.
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