Opportunities for UK-Africa Trade & Investment in a time of Geopolitical Flux

Invest Africa in Partnership with
Standard Chartered Bank

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Executive Summary

Africa is a strategically important partner for the UK with growing political and economic weight. Strengthening partnerships in Africa is an important pillar of the UK's wider geopolitical priorities as well as the shared drive towards sustainable development.

Africa has an essential role to play in the global green energy transition

UK-Africa trade and investment has historically underperformed with FDI flows from the UK into Africa stagnating over the last decade. With the UK no longer part of the EU, there is now an opportunity to reshape the country's trading relationship with Africa.

Despite the setbacks of the pandemic and the disruption of the Russia-Ukraine conflict, Africa remains an attractive market for international investors and offers significant opportunities in sectors where the UK has a competitive advantage including tech, renewable energy and financial services.

Businesses interviewed for this paper highlighted a number of barriers to investment in Africa, including weak infrastructure, instability and fragmented markets, as factors dampening UK-Africa trade and investment flows.

With significant development finance commitments through British International Investment and the financial weight of the City of London, the UK has the tools to support alternative financial methods to promote local investment and cross-border solutions in Africa.

British businesses already operating in Africa have been attracted to the continent's demographic boom and see the region as of long-term strategic importance. Successful businesses in the region have focused on developing local supply chains and investing in understanding individual markets due to current fragmentation.

The African Continental Free Trade Agreement (AfCFTA) demonstrates the ambitious approach of Africa's policy makers and can provide the framework to support further flows of trade and investment between the UK and Africa by facilitating cross-border trade and investment and promoting regulatory alignment.

Businesses are optimistic about these opportunities over the longer term but are conscious that further support will be needed to ensure a successful implementation of the AfCFTA and create enabling infrastructure for trade. The recent Memorandum of Understanding ('MoU') between the UK Government and the AfCFTA Secretariat pledging up to £35m to support the implementation of the AfCFTA is a positive step.

Africa has an essential role to play in the global green energy transition and, to successfully build on the agreements at COP26, driving investment into Africa's renewable energy sector must be a priority ahead of COP27. British businesses in the renewable energy space have a strong track record of building partnerships with African governments and these should be expanded.

The UK should continue to support Africa's priorities for sustainable economic and social development as outlined in the African Union's Agenda 2063 through robust partnerships which will allow the UK and African private sectors to work most effectively together to tackle the pressing challenges facing both regions.

Foreword
by Sarmad Lone

Regional Head of Client Coverage, Corporate, Commercial & Institutional Banking, Africa & Middle East, Standard Chartered Bank

Africa has substantial economic potential and the opportunities for foreign investment and strategic partnerships are on the rise. There is consensus that investment opportunities in Africa are abound, five structural trends - the continent's youthful population, increasing levels of urbanisation, abundance of resources, depth of financial services and technological infrastructure put Africa in a unique position for robust and resilient long-term international investment opportunities for countries like the United Kingdom.

The disruption caused by the COVID-19 pandemic has without a doubt halted domestic and foreign economic activity and currencies have been hit hard. However, despite these challenges, growth prospects remain bright.

This Invest Africa and Standard Chartered Bank paper clearly identifies a pipeline of opportunities across the continent. The ambitious AfCFTA, which has promised to set the continent on a stronger and more inclusive growth path is particularly within the interest of British businesses. Support from the region's key trade partners, including the UK, will be critical to the success of the agreement.

Furthermore, with increased mobile penetration across Africa, digital banking has seen some incredible traffic due to local lockdowns across the continent. In 2021 alone, Africa's fintech sector accounted for nearly $3 billion of the $5 billion raised in venture capital funding and neobanks.

$3bn

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The report also shows that to tackle decreasing FDI flows to Africa, local and international capital markets, traditionally avoided by investors due to high foreign exchange risk and currency volatility, are now introducing alternative methods to promote local investment and cross-border solutions. The London Stock Exchange Group (LSE) is leading the way on this innovation drive. With over 100 African companies listed on the LSE, the Group sees themselves as a natural partner for African capital markets, working to support the deepening of local markets and improve self-reliance against FX risk.

These are some of the exciting opportunities that we see burgeoning in Africa and the ambition is to encourage deeper trading partnerships with the UK and channel further investment into African nations. The UK has so much to offer ambitious African firms and coupled with the rising technology and dynamic population, there has never been a better time to invest in the continent.

Foreword
by Karen Taylor

CEO, Invest Africa

Invest Africa has been at the heart of the UK-Africa trade and investment for over sixty years since our foundation as the Business Council for Africa in 1956. Headquartered in London with a footprint of over 400 member organisations globally, we have always believed that a responsible and profitable private sector has an important role to play in Africa's socio-economic development. Working to build stronger partnerships with markets like the UK is an important part of this process, particularly in the wake of the setbacks of the Covid-19 pandemic and ongoing geopolitical turbulence.

It was in this context that we undertook this white paper in partnership with Standard Chartered Bank, to show how British and African businesses are already building successful partnerships in key sectors such as renewables, healthcare, tech and financial services and to highlight those areas where there is still room to grow the relationship.

Despite the clear opportunities highlighted throughout this paper, UK investment in Africa has remained stagnant for the last decade. Overcoming this trend will need to be a key pillar of the UK Government's new strategic approach to Africa, which acknowledges the increasing strategic and economic weight of the continent. It was encouraging to hear this issue addressed at the UK-Africa Investment Conference in January 2022 and put into action with the announcement of a UK Government programme of up to £35m to support the implementation of the AfCFTA. This paper aims to build on those discussions with businesses to outline potential areas that are well placed to support a deeper trade and investment partnership between the UK and Africa.

British International Investment (BII), formerly CDC, has a pivotal role to play with a target to invest $2.5 billion in its next strategy cycle with a significant proportion of this destined for Africa. Our interview with Nick O'Donohoe, CEO of BII, shows how development finance institutions can support the wider investment ecosystem in Africa through blended and concessionary finance as well, increasingly, through local currency mechanisms.

However, development finance alone cannot replace the needs for robust local capital markets, and this is an obvious area where the UK has a competitive advantage through the City of London. The London Stock Exchange Group has long been an important financial hub for African businesses and is now increasingly looking to partnerships with local capital markets. Rapid digitalisation in the financial sector should allow such cross-border exchanges to flow more easily, opening up a range of exciting opportunities for African and British businesses alike.

Finally, the AfCFTA demonstrates an ambitious policy approach from African leaders and one that will be rewarded if offered the right support. The challenge of fragmentation was highlighted throughout the contributions to this report and, by addressing this structural issue, the African market is undergoing a profound structural transformation that can unlock robust cyclical growth. By building partnerships that align with the continent's vision, there is much scope for the UK and Africa to work together to meet their shared goals of driving sustainable development, building a safer world, and achieving the green transition.

Foreword
by Saif Malik

Global Head of Global Subsidiaries & Head of Client Coverage, UK

The past two years have been devastating for many of Africa's 54 economies, with Covid-19 representing both a health and economic crisis. Although a global phenomenon, we have seen that many frontier markets in Africa have been more heavily impacted by the fall in trade and investment with less economic diversification, less mature infrastructure and greater reliance on foreign direct investment (FDI) than more developed economies.

As this report illustrates, however, Africa's potential remains undimmed. Africa is becoming a crucible for the next generation of technology innovation and digital economy, tapping into the demands of a young, digitally savvy population. As Nick O'Donohoe, Chief Executive of British International Investment (formerly CDC Group) notes, by 2050, 2 billion – more than 25% – of the world's consumers, will be in Africa. Digital commerce is already reshaping economies, growing by 26% year on year between 2017 and 2021 (including the Middle East) with the potential to double from US$52 billion in 2021 to US$108 billion in 2025.

We are already seeing this potential starting to crystallise, with UK companies seeking to harness growing opportunities to build sustainable businesses in Africa, whether infrastructure, sustainable energy, financial services or digital trade. UK companies are keen to build partnerships, supply chains and consumer communities in Africa, a trend that is already being reflected in growth in trade and investment. Total trade in goods and services between the UK and South Africa alone reached £11 billion in the four quarters to the end of Q3 2021, an increase of 35.5% or £2.9 billion from the same period to the end of Q3 2020. In 2020, outward foreign direct investment (FDI) from the UK to South Africa reached £19.4 billion or 1.2% of the total UK outward FDI stock.

In parallel with the shift towards digital economies in Africa, the growing importance of impact investing and the sustainability agenda has particular relevance in Africa given the environmental and social vulnerability that exists in many parts of the continent. UK companies are increasingly defining strategy and measuring performance against environmental, social and governance (ESG) metrics as well as growth and profitability. This is likely to inspire further trade and investment in Africa as companies recognise the positive impact of their activities on communities and the environment, as well as future growth potential.

As a result, the combination of digital and sustainability could mark a step change for Africa nations and their investment and commercial partners in the UK and beyond. By leveraging digital technology and business models, together with financing and investment that incentivises sustainability, companies, banks and communities can contribute to greater economic, environmental and social resilience and fuel growth.

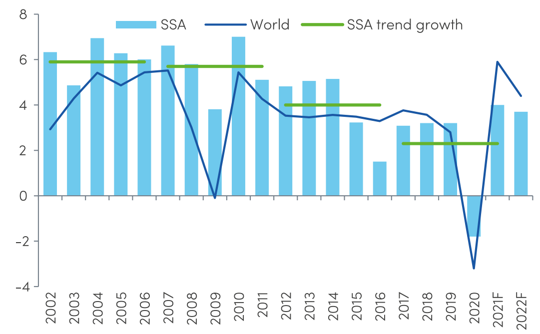
"The UK has so much to offer ambitious African firms and coupled with the rising technology and dynamic population, there has never been a better time to invest in the continent."

Sarmad Lone, Regional Head of Client Coverage, Corporate, Commercial & Institutional Banking, Africa & Middle East, Standard Chartered Bank

The View from Standard Chartered Bank: Sub-Saharan Africa Economic Outlook

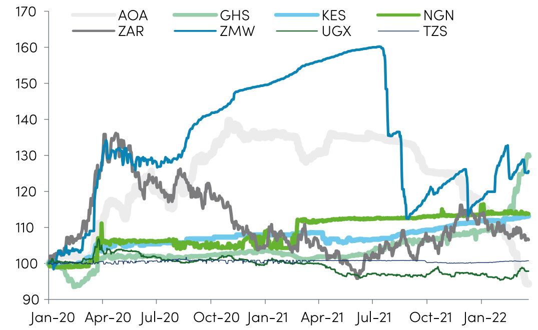
The successive global shocks of the pandemic and the Russia-Ukraine war have tempered Africa's growth as the continent lacks the fiscal space to amortise external pressures.

Figure 1: Higher food and energy prices likely to act as a new growth headwind
Real GDP, % y/y



Source: IMF, Standard Chartered Research

Figure 2: SSA FX - A mixed performance
SSA FX, rebased (Jan 2020 = 100), USD - LCY



Source: Bloomberg, Standard Chartered Research

For those countries reliant on food and energy imports inflation is starting to bite, acting as a growth headwind. Oil and gas producing economies meanwhile, could benefit from the West's search for new sources of energy, though significant investments would be needed to expand capacity.

The economic pressures of the last two years have increased stress on public finances across the region with debt on the rise. Weak FX liquidity and low reserves also continue to pose a significant challenge in many markets, undermining the flow of trade and investment.

West Africa: Steps to reassure & missed opportunities to reform

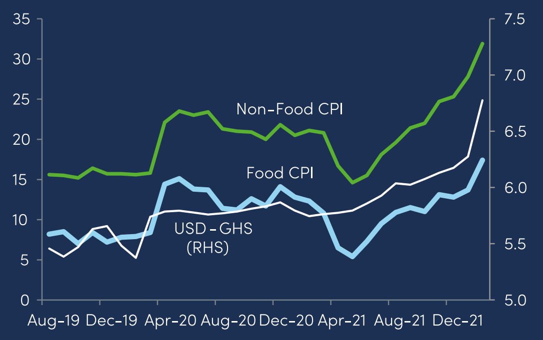
Q2 will provide a key test of Ghana's ability to improve investor sentiment and create a firmer foundation for future growth. Having been locked out of international capital markets due to rising yields and downgrades from Fitch and Moody's, the authorities have taken decisive action. The Bank of Ghana (BoG) tightened policy more aggressively than markets anticipated in March with a revised fiscal plan was announced and discretionary spending was cut 30% (versus an initial announcement of a 20% cut).

At the core of Ghana's effort to boost market sentiment is the plan to borrow USD 2bn from the syndicated loan market in Q2-2022. While rating downgrades were prompted by the loss of access to international capital markets, the authorities feel that the Eurobond market is wrong in its assessment of Ghana's economic fundamentals and creditworthiness. The ability to borrow on favourable terms from other sources might prove Ghana's case. The injection of an additional USD 2bn would also help to replenish FX reserves.

Standard Chartered's GDP forecasts for Nigeria remain unchanged, despite the boost from higher oil prices following the invasion of Ukraine. Nigeria's oil production has fallen behind its OPEC+ quota, reflecting years of underinvestment in the sector – the result of a weak price environment since 2014, regulatory uncertainty before the 2021 passage of the Petroleum Industry legislation, and a move away from fossil fuels.

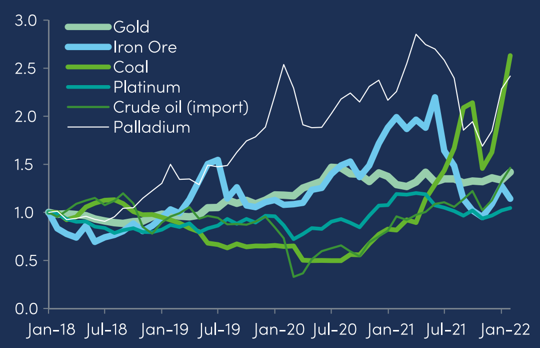
Nigeria's dependence on imported wheat from Russia and Ukraine remains a key near-term threat. With diesel prices not covered by the subsidy, we now forecast a much faster rate of inflation, with CPI accelerating to an average 16.5% in 2022 (12.7% previously) and 14.7% in 2023 (12.0%).

Figure 3: BoG tightens policy to arrest GHS depreciation
CPI, % y/y, food and non-food (LHS), USD-GHS (RHS)



Source: StatsGhana, Bloomberg, Standard Chartered Research

Figure 4: Favourable terms of trade support ZAR
Commodity prices, rebased January 2018 = 100



Source: Bloomberg, Standard Chartered Research

East Africa: Elections and insecurity overshadow economic performance

Standard Chartered's forecasts for Kenya factor in a slowdown in activity around the August elections. The outcome is too close to call for now; former Prime Minister Raila Odinga and Deputy President William Ruto, who has mobilised significant youth support, are both considered frontrunners.

Growth is set to slow from a strong base – the Central Bank of Kenya (CBK) estimates 2021 growth at c.8% (official data has yet to be released). While agriculture performance is expected to improve with better rains, fertiliser supply bottlenecks are a downside risk. Horticulture and services exports have performed favourably, and tourism is recovering, but higher food and fuel prices are a risk to economic performance.

Ethiopia's domestic security situation remains key to the economic outlook. An early end to the state of emergency in February, and the establishment of a national dialogue committee, are positives and may allow for progress on debt restructuring in Q2.

Opening key sectors of the economy to private-sector and foreign participation will be important in driving medium-term growth. The government launched a sovereign wealth fund, Ethiopian Investment Holdings, in December, aimed at attracting investment of at least USD 150bn in state-owned companies and assets. It has suggested that financial services may be opened to foreign banks, but we believe this could take several years.

Southern Africa: Exports provide some insulation against ongoing instability

Given its commodity exports, South Africa is better insulated from the Russia-Ukraine crisis than many other emerging markets. As the world's top producer of platinum, and the second-largest producer of palladium after Russia, South Africa stands to benefit from the diversion of commodity demand away from Russia.

Among EM currencies, the ZAR has been a relative outperformer, partly due to perceived terms-of-trade gains. However, the commodity association may also leave the ZAR vulnerable to any suggestion of slowing commodity demand from China, should China's zero-COVID policy affect growth more significantly.

Angola is a beneficiary of higher oil prices. Although the oil sector itself is unlikely to be a significant growth driver (Angola lacks capacity to increase oil production), higher revenue should provide some fiscal room for manoeuvre. Inflation is a policy focus ahead of the August election. A close contest between incumbent President João Lourenço and opposition leader Adalberto Costa Júnior is likely. The cost of living and lack of GDP growth have been key concerns for voters.

Disruption and Reform: Africa's Investment Landscape

In the wake of global economic shocks, capital tends to retreat from markets that are perceived as riskier. The global recession triggered by the Covid-19 pandemic was no different and in 2020, Africa suffered a 50% drop in FDI, making it the worst hit region globally.

With the recovery from the pandemic barely underway, the Russian invasion of Ukraine has once again thrown the global economy into crisis. Rising prices of staple goods, particularly wheat, oil, and fertiliser, are already beginning to have an effect in Africa posing a threat to food security and livelihoods in the region.

Realignments in global supply chains could present some opportunities for the continent as Western economies seek new sources of energy and commodities. However, Africa will only be in a position to take advantage of these shifts and drive forward social and economic development if FDI flows return to their pre-pandemic levels. This means both leveraging private capital for investments in Africa's high-growth sectors and supporting structural reforms to improve the investment climate across the region.

Businesses interviewed for this paper highlighted significant barriers to investment in the region including weak infrastructure, instability and fragmented markets. 600 million Africans still do not have access to electricity while underdeveloped transport networks have weakened supply chains and undermined growth. Meanwhile, the pressures of the pandemic and a deepening of inequalities have led to destabilised political landscape in multiple states, notably Ethiopia, Mali, South Sudan and Nigeria, which investors are watching closely.

Despite these challenges, the African Private Equity and Venture Capital Association has found that 65% of LPs and 48% of GPs believe that the underlying attractiveness of African PE remains unchanged by the pandemic. Driven by strong demographic trends – Africa is set to account for 25% of the global population by 2050 – and robust growth in key sectors, the continent offers an attractive investment proposition for international capital. The fact the UK-based private equity firm, Development Partners International (DPI), was able to close a $900 million Africa-focused fund in October 2021, one of the largest raised to date, is testament to the fact that "Africa remains an exciting investment destination with positive demographics, rising adoption of technology, and rising consumer and business spending", according to the company's CEO, Runa Alam.

Much of this investment has been concentrated in high-growth sectors such as tech and green energy as increasingly impact-oriented investors look for sustainable solutions to the dual challenges of the climate crisis and Covid-19. In 2020, over half of all PE investments in the region were in the tech sector while African start-ups raised over $1 billion for the first time last year.

Another sector set for rapid growth is green energy and interest in Africa's potential in this area should only increase as the geopolitical fault lines of energy supply harden. With significant resources in solar, wind and hydro power, Africa has strong potential in renewables and developing this capacity will be key critical to achieving a just global energy transition whilst driving continued economic growth in Africa. Speaking at the UK-Africa Investment Conference in January 2022, Dr. Vera Songwe, Executive Secretary of the UN Economic Commission for Africa (UNECA), highlighted that, "Africa's energy paradox is an investment opportunity for the UK and Africa alike".

Such comments reflect African leaders' desire to attract foreign investment into those sectors that will allow the continent to reach its development goals set out in the AU's Agenda 2063. Economic diversification is high on the agenda and essential to ensuring that Africa's demographic dividend does not become demographic disaster. However, historically, UK investment in Africa has been concentrated in extractives and financial services, accounting for 51% and 35% of total investment respectively with 30% of all investment focused on one market, South Africa.

The AfCFTA promises to offer incentives to attract capital to a wider range of sectors and boost the region's manufacturing capabilities. Investors are optimistic that the agreement will have a catalytic effect and usher in wider regulatory improvements, although, with a long way to go in the road to implementation, demonstrating early successes will be key. Nonetheless, international investors cannot afford to ignore the agreement which created the largest free trade area in the world and is set to transform the investment landscape in Africa, reflecting a desire to focus on long-term investments over short-term fixes.

Missed Opportunities and Strong Potential: UK-Africa Policy since 2016

The United Kingdom's exit from the European Union was billed as an opportunity to turn to new trading partners under the banner of 'Global Britain'. However, despite these promises, foreign direct investment (FDI) flows from the UK to the continent have stagnated over the last decade. At the UK-Africa Investment Conference in January 2022, Dr. Vera Songwe, Executive Secretary of UNECA, launched a challenge to double UK FDI to Africa from 3% of total UK FDI to 6% by 2027, arguing that the current levels "do not make for a strong UK-Africa relationship". Policymakers should now seize the opportunity to reshape the UK's relationship with Africa into one of genuine partnership which supports the continent's development and recognises the region's importance to tackling the global challenges of Covid-19 recovery, the climate crisis and international security threats.

In the immediate aftermath of the Brexit vote, much UK trade policy in Africa was focused on rolling over the Economic Partnership Agreements (EPAs) that govern the continent's trading relationship with the EU. As of January 2022, the UK established EPAs with the Eastern and Southern Africa Bloc (ESA), the East African Community (EAC) and the Southern African Customs Union and Mozambique (SACUM), though not all member states of these blocs have ratified the agreements. Further bridging or interim agreements have been signed with Ghana and Côte D'Ivoire. The approach to rolling over EU-era EPAs has received some criticism for simply replicating the previous relationships and not taking full advantage of the opportunity to reform the agreements to support a more diversified trading relationship between the UK and Africa.

In its new strategic approach to Sub-Saharan Africa, launched in 2018, the UK Government has recognised the "rapidly increasing political and economic importance of Africa". This assessment drove the inaugural UK-Africa Summit in January 2020 which saw over £6.5 billion announced in commercial deals across infrastructure, energy and tech. Subsequent virtual UK-Africa Conferences, focused on business to business relations, have sought to maintain this momentum with the most recent iteration closing with a call for project proposals. British International Investment (BII), has invested over £2 billion in Africa since 2020 while UK Export Finance (UKEF) has substantially increased its commitments in Africa to support £2.4 billion of UK investment in 2021.

However, critics have pointed to the dilution of the UK's promise to become the largest G7 investor in Africa to an aspiration to be the continent's "partner of choice" as a sign that the UK's strategic approach to Africa lacks concrete policy proposals. Meanwhile, the decision to cut the overseas development budget from 0.7% to 0.5% of GDP has undermined the ability to deliver on promises. In an era of mounting interest in Africa, notably from China, Russia, Japan, France and the USA, the UK cannot afford to underinvest in the region. The UK Foreign Secretary, Liz Truss, has made no secret of her desire for the UK's foreign policy to offer an "alternative" to "strings attached debt from autocratic regimes" pointing to an approach which sees strong trade and investment relations as the foundation of the UK's ambitions to support trade, peace, and prosperity in Africa.

The UK Government's policy in Africa should now look to support the continent's own priorities as outlined in the African Union's Agenda 2063 to build genuinely productive partnerships. The UK's MoU with the newly ratified AfCFTA in September 2021, followed by a renewed commitment in March 2022, sends promising signals of continued investment in developing Africa's regional trade links and manufacturing capability, two priorities for the AfCFTA Secretariat. The launch of the Growth Gateway, an online portal to connect African and British businesses with finance and trade opportunities has the potential to consolidate the UK's trade and investment offer in Africa to focus on mutual opportunities in high-growth sectors.

Leveraging investment in Africa

with **Nick O'Donohoe, CEO, British International Investment (BII)**

As the UK's largest investor into Africa, you have a unique insight into cross-border trade and investment. Following two years of a global pandemic and decreasing FDI flow into African markets, what is your current view on the status of UK-Africa trade & investment?

Covid has had a very significant impact on Africa in terms of slowing economic growth. It has been a significant health crisis but also a humanitarian one, driven by very low levels of vaccination across the continent. Due to a lack of domestic capital markets, Africa relies heavily on foreign direct investment and international investment has slowed down dramatically. As is usual in crises, investors tend to retreat from markets that are furthest away from them, which is what has happened across Africa and other frontier markets, which were hit hard by a lack of risk appetite.

Overall, however, I still believe the investment case for Africa is strong, driven in large part by demographics. By 2050, there will be 2 billion people, a quarter of the world's consumers, living in Africa, which will drive significant cyclical growth. The other important driver in the longer-term African context is the growth of technology and the digital economy. Fintech, for example, is transforming financial systems in countries like Nigeria and Kenya. Although this technology has been slower to develop in Africa due to a lack of infrastructure, it nevertheless enables businesses and economies to grow in an unprecedented manner.

Over the last decade, there has a move within the DFI community towards embracing the idea of risk, return and impact in investment decision-making. In June 2021, we were instrumental in establishing a consortium at the G7 meeting to commit $80 billion of impact-focused investment in Africa over the next five years. The impact asset class approach to investment is growing quickly alongside an increase in available blended and concessionary finance. As people become more conscious of the impact of their investments, the hope is this will have a beneficial effect on Africa. Overall, looking at the challenges in the medium-to-long term, we are quite optimistic. 60% of our investments go to Africa. That is likely to continue in the new strategy cycle, in which we are planning on investing $2.5 billion a year.

You mentioned some of the factors that have hindered FDI flows into Africa. How can the DFI community as a whole help to overcome some of these challenges?

60%

of our investments go to Africa

There are constraints we can overcome in collaboration with our partners and government, and there are some we cannot.

It is much easier for the private sector to grow in countries that have scale - the challenge with Africa is that it is fragmented, 54 countries in total. If you look at India, a country in which we invest heavily, once you get the basic enabling infrastructure in place, the private sector can drive growth quickly. The fragmentation in Africa means that businesses tend to be relatively small. For example, Ethiopia has around 20 companies with revenues over $50 million, whereas the UK has 10,000 businesses of that size. This fragmentation makes it much harder to grow large companies, and that holds Africa back.

The Africa Continental Free Trade Area (AfCFTA) will be instrumental in allowing businesses to scale and we are eager to see fast progress in this area. In the same way that the European Union, over 50 years, made Europe a much more homogeneous scalable market, AfCFTA can offer the same potential for Africa.

We try to find companies that can grow across borders, whilst recognising that there are challenges and costs associated with such growth. Liquid Telecom is a good example - they were established in the UK, headquartered in Johannesburg and their ambition has seen huge investment in ensuring they build a fibre network that is pan-African.

Another issue holding back trade and investment into Africa is currency risk and the perception that currencies in Africa have largely been weak, which in turn leads to less availability of local currency. If you look at West Africa, the Ecowas common currency zone has been relatively successful and has helped the region to develop. We aim to address this issue by providing more project finance in local currency. As part of our next strategy cycle, we are hoping to increase the amount of local currency and hedge the local currency risk we will take through our Catalyst portfolio, in which we are mandated to take a flexible approach to risk in exchange for pioneering impact. We've used this strategy, for example, to make currency loans to home solar businesses in Kenya and Uganda and we anticipate more local currency loans over the coming years.

This lack of liquidity through local capital markets leads to a huge reliance on international institutions and banks. That was particularly important at the start of the pandemic. As many international banks withdrew funding, we saw organisations like BII and other DFI partners stepping forward to provide liquidity through instruments such as trade finance. DFIs can help in that respect, although it's worth noting that we are not a substitute for domestic savings.

Finally, all of this builds into a greater perception of risk of investing in Africa. Whilst there is some truth in the level of risk, it is not as high as people perceive it to be. For example, there is recent data from Moody's that shows default rates on infrastructure projects in Africa are much lower than in Western Europe and that demonstrates that there are some areas where I think the risk in Africa is more perception than reality.

It is encouraging to hear that there has been some progress, particularly on the issue of fragmentation through the AfCFTA. What other policy areas do you think could help improve the perception of Africa as an investment destination?

One thing that would help increase investment flows into Africa is the creation of scalable investment ecosystems. We spend a lot of time thinking about how, as a DFI we can channel more concessionary capital and technical assistance to Africa. It is, however, a two-way street; governments have an important role to play in driving the real commercial flows to Africa. For example, stable macroeconomic policies are needed to moderate fiscal deficits, which in turn leads to lower inflation, lower interest rates and more stable currencies. These improve governance, transparent tax policies and bidding processes, all of which helps to attract international investment. BII, and DFIs more generally, can support these areas, and the FCDO has a lot of experience in developing institutions and governance processes. Again, looking at India, the government has implemented several steps that have enabled investments into the country, whether that is their procurement policies in renewable energy, or the low-cost ID verification banking systems they have made available. These are the types of infrastructure that make a country investable.

Outside of more traditional policy areas, development finance can also help to develop infrastructure in its broader sense, not just hard infrastructure like power which remains critical in Africa. For instance, if you look at mobile money in Kenya, a country in which 80% of people work in the informal economy, cash has disappeared. Initiatives like M-PESA, although slow to find its way around Africa due to potential conflicts it brings between other mobile companies, banks and regulators, has created an enabling environment to allow businesses to prosper and reach a much larger part of the lower-income population.

Finally, we need to break the link between economic growth and carbon emissions and build green infrastructure and green power that can help support development in Africa.

"The investment case for Africa is strong, driven in large part by demographics. By 2050, there will be 2 billion people, a quarter of the world's consumers, living in Africa, which will drive significant cyclical growth."

Nick O'Donohoe, CEO, British International Investment (BII)

Sticking on that infrastructure question, do you see this being a priority for the next five years of BII's Africa strategy?

Yes, infrastructure is going to be a big part of our investment in Africa in its broadest sense: power, telecommunications, internet, all of which we see as vital for development. We will also continue to support the banking system and the funding system, because that is the traditional role of the DFI - to intermediate money through banks and funds towards smaller and medium-sized enterprises.

Additionally, we will still be looking for investments that create jobs and improve lives in areas like agriculture and manufacturing. There is a lot of potential opportunity around the climate change agenda, not just building solar panels and wind turbines, but everything that is included in the just transition, including the creation of green jobs.

Just before we end, was there anything else you wanted to highlight in terms of BII's broader strategy following your rebrand?

I think our name change is important and it is British International Investment for a reason. If you look at the names and logos of other DFIs, you can see what country they represent. BII is an anomaly in that respect. We want to be clearly recognised as a British institution, funded by the British taxpayer. And to your point about UK-Africa relationships, we want to be a visible part of that relationship and the new name will make it easier for the organisation to achieve this.

It also communicates a broader remit - at the launch we said that it's clear we are becoming a global leader in climate finance in Africa and South Asia. The name should send a clear message about our desire to be clearly seen both as a British institution as well as the increased breadth of what we do.

If you read the new strategy document, you'll see that it commits British International Investment to continuing to grow, continuing to take risks to and go to the most difficult places, continuing to focus on development. We have more tools now through the Catalyst portfolio to do so. It also commits British International Investment to building on our role as a climate finance investor and focus more on digital, which is a key enabler for many of our markets. It builds on our successful track record over the last 70 plus years and then enables us to go further on areas like climate, technology and gender finance. That's where we really think we can move the needle.

Local Models and Global Connectivity:

how businesses have navigated the global supply chain crisis in Africa

The Covid-19 pandemic and the breakdown of the West's relations with Russia have severely undermined global trade and prompted many countries to re-evaluate their supply chains.

African trade, with its heavy reliance on commodities, has historically been particularly vulnerable to external shocks such as those experienced in in 2008 and 2014. The Covid-19 economic crisis is no different. As the value of world merchandise trade fell by as much as 20% between Q2 2019 and Q2 2020, the continent faced its first recession in 25 years posing serious threats to lives and livelihoods. For export businesses, the crisis brought with it acute challenges as lockdowns and travel disruptions undermined their ability to bring goods to market.

Despite these short-term difficulties, businesses continue to highlight long-term opportunities in Africa. The continent boasts a rapidly growing, young and increasingly urban population. These demographics make the region "one of the most exciting opportunities" for Diageo, the leading British global beverage alcohol company, according to John O'Keefe, President of the company's Africa operations. In line with this assessment, business leaders are focused on long-term strategies, whilst monitoring the current context closely.

Planning stability and predictability are critical in allowing business to meet their long-term targets and for Africa to achieve its goals. Frequently changing regulatory and taxation frameworks, foreign exchange volatility, challenging import-export processes and political instability all pose challenges for UK-based companies looking to engage in trade on the continent. Meanwhile, the fragmentation of the African market only adds to the operational burdens that businesses face, with many highlighting the importance of strong local linkages and a country-by-country approach.

The value of world merchandise trade fell by as much as

20%

between Q2 2019 and Q2 2020

CASE STUDY

Diageo Building Resilience Through Local Supply Chains

"For Diageo, Africa represents a region where we operate on a local model. Through breweries old and new we source, employ, manufacture and sell locally – operating in a way which delivers a sustainable and connected way of doing business alongside local communities. We source c.80% of our raw material inputs locally and are producing locally from our breweries and bottling plants – this has insulated us from a number of challenges in the current global supply chain world.

However, we do face some challenges for our imported spirits, for example luxury scotch and gin brands, where glass and logistics blockages are a problem. In those cases, we are monitoring the situation closely and exploring the use of local spirit production via our Cube technology which allows us to rapidly develop processing in difficult to reach markets using a portable manufacturing cube."

John O'Keefe, President, Diageo Africa

In Africa, "you don't have a robust system that you can press against and makes things happen in six months"

Barbara Nel, President, Africa Cluster, AstraZeneca

The pressures of the Covid-19 pandemic have brought these underlying difficulties to the fore as businesses have had to adapt quickly to a rapidly changing landscape. Healthcare is one sector where this has been felt particularly acutely. In Africa, "you don't have a robust system that you can press against and makes things happen in six months," explains Barbara Nel, President, Africa Cluster, AstraZeneca. In many cases businesses need to invest in building the infrastructure to support expansion. This is one area where the UK can provide effective support through both direct investment and knowledge transfer. In healthcare, for example, Nel sees a powerful role for harnessing the knowledge and expertise sitting in NHS Trusts, hospitals and healthcare companies to grow Africa's healthcare delivery capability.

In response to the pressures of the pandemic, investments have been made to address some of these structural weaknesses. Backed by the World Health Organization, plans are underway to create mRNA technology transfer hubs in South Africa while manufacturing capabilities are being developed in Rwanda and Senegal for mid-2022. However, as Nel highlights, these developments do not yet offer the scale needed to substantially transform the delivery of pharmaceuticals across the continent. Though many African countries have demonstrated their commitment to implementing ambitious policies to boost trade and manufacturing, it remains important for businesses in Africa to pursue their own partnerships in the short to medium term.

Chief amongst Africa's ambitious long-term policies is the AfCFTA, which has promised to set the Continent on a stronger and more inclusive growth path. It is hoped that the creation of the world's largest free trade area will finally allow businesses in Africa to achieve their full potential. "It's not clear how putting down manufacturing in Nigeria, Ethiopia or Kenya, for example, can easily benefit the rest of the continent". It is also hoped that the AfCFTA will form the bedrock of African nations' plans to diversify. When African countries trade with each other, they trade significantly more manufactured goods than when they trade with external partners. Currently only 17% of African trade is conducted with other African countries, compared to 69% in Europe and 59% in Asia, leaving plenty of scope for growth.

It is within the interest of British businesses for Africa to make a success of the AfCFTA. Support from the region's key trade partners, including the UK, will be critical to the success of the agreement. Though the UK government adopted a new strategic approach to the region in 2018, promising to make the region a priority, UK foreign direct investment (FDI) flows to Africa were falling even before the pandemic hit. Initiatives such as TradeMark East Africa and the Manufacturing Africa programme have had some successes in reducing trade costs and facilitating local manufacturing but, business leaders have also called on policymakers to build meaningful partnerships both with governments and the private sector.

A focus on: Healthcare – leveraging global networks to strengthen local delivery

In January 2021, AstraZeneca partnered with the Serum Institute of India (SII) to produce 1 billion doses of its Covid-19 vaccine for low and middle-income countries.

"I think the partnership with SII, with the scale that they are able to produce, was absolutely the right model. And we're seeing that at the moment when we have doses sitting in COVAX and we have SII ready for bilateral agreements... Once again the challenge that you have in Africa is every single conversation with the Ministries of Health is about local manufacturing but there's not yet a clear approach."

Barbara Nel, President, Africa Cluster, AstraZeneca

"When you look at the investment landscape, there will probably be other parts in the world where you can see results faster, but maybe over a four- or five-year period, Africa can give you more,"

Barbara Nel, President of the Africa cluster at AstraZeneca.

Powering Green Growth: UK Investments in African Renewables

Renewable energy is one of the key sectors that has continued to see strong investment interest despite the challenges of the pandemic. With the UK set to hand the presidency of COP to Egypt at the end of 2022, boosting UK investments in African renewables is a clear priority for both regions.

This year the UK Government stopped investing in fossil fuels overseas, placing the onus on renewable energy projects to fill an investment pipeline estimated at $13 billion. With strong expertise in the sector and a large number of companies with experience in African energy, the UK is well-placed to harness Africa's renewable energy potential and support the continent in the global race to net-zero.

$13bn

This year the UK Government stopped investing in fossil fuels overseas.

CASE STUDY

Building public-private partnerships to improve access to renewables

Since 2017, Bboxx, a UK-based next generation utility, has entered an innovative and forward-thinking partnership with the Government of Togo to provide access to clean, reliable, and affordable energy through solar home systems to all Togolese, especially those living in rural areas. The partnership was formed part of the Togo Government's national electrification strategy, the "CIZO" initiative – which means "lighting up" in the local Guin language. In 2018, Bboxx and EDF entered a partnership, a joint venture, with EDF holding a 50% stake in Bboxx's Togo operations, operating as the brand "Bboxx avec EDF". This joint venture has accelerated investment and deployment of off-grid electricity across Togo. In 2019, "Bboxx avec EDF" customers in Togo receive a subsidy to spend on solar energy – which is the first government subsidy for the purpose of solar energy payments in Africa. This forms part of the "CIZO" initiative of the Government of Togo and is named the "CIZO cheque".

By 2021 the programme had positively impacted over 250,000 Togolese by providing clean, reliable, and affordable electricity to their homes, communities, and businesses for the first time.

In 2020, following on to its successes in bringing clean electricity in Togo, Bboxx, EDF, and SunCulture team up with the Government of Togo to accelerate access to sustainable solar-powered irrigation systems for thousands of farmers. Bboxx EDF have positively impacted the lives of more than 3,000 Togolese farmers, by deploying 3,024 solar-powered irrigation systems across Togo.

In 2021, Bboxx EDF, and the Government of Togo have signed the first ever Memorandum of Understanding ('MoU') to sell smartphones in Togo on "Pay-As-You-Go" basis. This MoU supports the Government initiative to drive greater financial inclusion and delivery of digital services to the public.

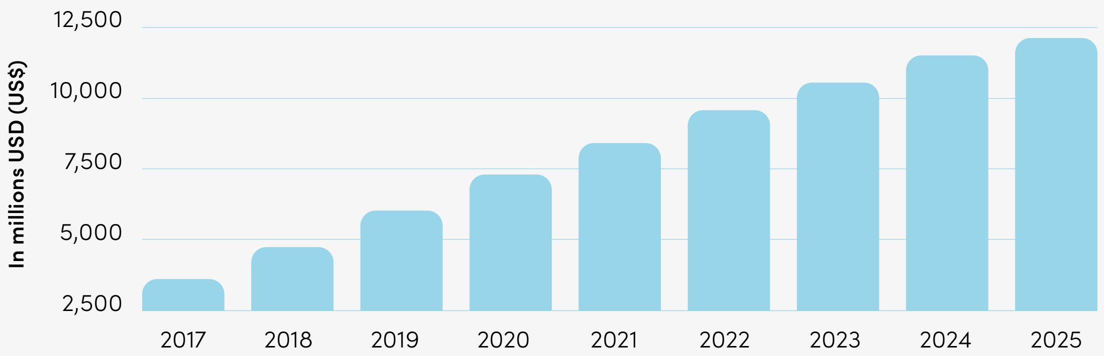
Breaking down barriers: innovation in Africa's financial services sector

"These types of opportunities have now become attractive to the international investment community, shifting FX risk away from the issuer to the international investor who have better tools to mitigate the FX risk."

Ibukun Adebayo, Director, Co-Head Emerging Markets, International Markets Unit, London Stock Exchange Group from LSEG,

FIGURE 5

Estimated transactions by African neo-banks, 2017-2025



Source: *Capita*

The Covid-19 pandemic has accelerated a digital evolution in Africa's banking sector.

Despite 60% of Africa's population (around 95 million people) not having a traditional bank account, smartphone sales in Africa represent 6.6% of the global market, offering huge opportunities for a digital transformation in the financial sector. Thanks to this rate of mobile penetration, combined with an increase in digital banking traffic due to local lockdowns across the continent, African fintech has never looked stronger. In 2021 alone, Africa's fintech sector accounted for nearly $3 billion of the $5 billion raised in venture capital funding and neobanks, such as 4G Capital, TymeBank and Kuda, all aimed at improving financial access and cross-border transactions, are estimated to account for just under $12 billion in financial transactions by 2025.

Outside of the digital banking space, other financial services are also looking at ways to innovate. To tackle decreasing FDI flow to Africa, estimated by the World Bank to have dropped by 16% in 2020, local capital markets, traditionally avoided by investors due to high foreign exchange risk and currency volatility, are now introducing alternative methods to promote local investment and cross-border solutions.

The London Stock Exchange Group (LSE) is leading the way on this innovation drive. With over 100 African companies listed on the LSE, the Group sees themselves as a natural partner for African capital markets, working to support the deepening of local markets and improve self-reliance against FX risk. As part of this innovation drive, the LSEG has been broadening its local offshore currency financing, leading to Quantum Terminals, a Ghanaian oil and gas trading group, listing the first Cedi corporate bond on the LSE International Market, which yielded a 20% coupon in 2021.

CASE STUDY

Pan-African Payment and Settlement System

The launch of the Pan-African Payment and Settlement System (PAPSS) at the beginning of 2022 has heralded a new era for Africa's financial services. Addressing traditional blockages to cross-border payments, including fragmentation across the continent, PAPSS will aim to add value through a common African market infrastructure to improve financial access across the continent.

Mike Ogbalu III, CEO of Pan-African Payment & Settlement System - PAPSS, stated, "The continent is ready for a payment infrastructure which has solid technology and good governance framework. A more efficient payment system provides more growth in the economy. The system has been designed to co-exist, integrate and offer interoperability with the current payment systems in place across the continent."

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