The New Africa

Monday October 6 2014

www.ft.com/reports | @ftreports

Inequalities mar continent's rise

Foreign investment in the region may be hitting record highs but social disparity and corruption remain rife, writes *Javier Blas*

High hopes: cranes help to erect buildings in Luanda's business district. Economic growth in Africa, however, remains unequal and poverty is on the rise — Bloomberg

From Senegal to Kenya and from Morocco to Mozambique, Africa is enjoying an era of economic promise that has survived war and famine, dictatorship and corruption.

After stagnating for two decades, African gross domestic product per capita has surged almost 40 per cent since 2002 as the continent enjoys a period of robust economic growth unparalleled since the decolonisation cycle of the 1960s and 1970s. A virtuous circle of healthy growth in the continent's economies – supported by high commodity prices and cheap Chinese loans – and improved governance have led to a new chapter that many call "Africa Rising".

By and large, the military remain in their barracks: democracy, even if imperfect, has spread through the continent and has seen the rise of an increasingly powerful independent media.

The new dawn has lifted Africa's profile, attracting billions of dollars in foreign investment. With a pool of young talent, fertile land and abundant commodities, many hope that Africa could, at the very least, play a larger role in global business.

Still, the journey to fulfil those hopes remains tortuous: corruption remains rampant and governments are doing very little to build institutions for the long term. The media are under attack in many countries and some politicians are trying every trick in the book to extend their mandate beyond the legal term.

Economic growth, even if robust, remains unequal, with poverty and unemployment on the rise.

Meanwhile, the demands of an impatient young population – which has already reached 1bn and could expand to a worrisome 4bn by the end of the century – are growing by the day, in part spurred by the increased use of mobile phones and social media.

Christine Lagarde, managing director of the International Monetary Fund, captured the dichotomy at a recent meeting of African officials. She said that it was undeniable that Africa was enjoying one of its best periods. But she added that there were many challenges to resolve. "Africa Rising is the 'good news' part of the message; Africa Watching is the second part," she said.

Africa, therefore, appears to be at a

continued on page 4

Inside

Investors discover routes to riches beyond commodities

Private equity

The success of specialist funds investing in consumer products companies is encouraging global groups to make their own deals, reports *William Wallis*

Local knowledge is key: Runa Alam

Legend never had it that there would be diapers, foam mattresses, tampons and bottled water at the end of the rainbow. But private equity firms investing in Africa have been using the special financial alchemy at their disposal to turn just this kind of humble household goods into pots of gold.

Over the past decade and more, specialist private equity funds have played a significant role in dispelling the popular myth among investors that the only real money to be made in Africa is from the continent's natural resources: its oil, diamonds, gold and other minerals.

The commodity play is only part of the story for an asset class that has proved well placed to tap into poorly served African markets at a time of rapid economic growth and strong demand for all manner of products and services among an expanding middle class.

"This whole idea that you can invest in anything other than resource companies and big Nigerian banks has been very much private-equity led," says Runa Alam, chief executive of Development Partners International, a London-based private equity firm that specialises in Africa.

The African Private Equity & Venture Capital Association (AVCA), which Ms Alam chairs, estimates that after a decade and a half of growth in the industry, private equity firms now have assets under management in Africa worth $25bn.

New fundraising was up 136 per cent year on year in 2013 to $3.3bn, representing a steady recovery in the aftermath of the global financial crisis. This compares with $4.7bn in 2007, when the industry achieved its first peak on the continent.

The specialist funds that have dominated so far are being joined by some of the big global private equity operators, for which until recently the continent was scarcely better defined than a 16th-century map – a vague outline with lots of blank space in between.

The Carlyle Group of the US announced a $700m close this year on its $500m-target maiden African fund. Other big groups have also been eyeing new African deals, including Kohlberg Kravis Roberts, Warburg Pincus and Blackstone, which in August announced a $5bn partnership with Aliko Dangote, Africa's richest man, to invest in power, transmission and pipeline projects.

Their enthusiasm is predicated on fast-growing economic output, which continentally has risen almost fourfold since 2000 to more than $2tn. It is also underpinned by the kind of returns that the specialist private equity groups have been making on the continent.

'If you have a profitable company in Africa, you can sell it. That wasn't clear in 2000 when we started'

According to analysts from consultancy EY who prepared a recent study of the sector, private equity funds investing in fast-growing African economies are significantly outperforming established markets and achieving returns on exit comparable to China and Latin America.

"If you have a good and profitable company in Africa, you can sell it. That wasn't clear in 2000 when we started," Hurley Doddy, co-chief executive of Emerging Capital Partners, another pioneering firm, said at a recent conference on private equity in Lagos, Nigeria's commercial capital.

Mr Doddy's firm has made 56 investments on the continent in a broad range of sectors, including rubber and sugar companies, restaurant chains, utilities, financial services and telecom towers.

Recently, the group achieved a record listing in Tunisia for personal care company Société d'Articles Hygiéniques. The fund earned returns worth 2.4 times of its investment in local currency terms and 1.6 in dollars, Mr Doddy says.

At the heart of many of such deals are African professionals with an ability, born of local and global experience, to triangulate between western and Asian capital and local opportunity, sniffing out the most lucrative deals.

"This is no different from Asia and Latin America at a time when you have a good cadre coming out of top business schools with the skill sets to do global standard work," says Ms Alam.

She refutes the idea there is too much money chasing too few deals. Rather, she says, there is a huge supply of companies, many of them family-owned, that are looking for outside capital to expand to the next stage. The key to finding them is to build up networks and local knowledge around the continent.

Ms Alam says: "The reality is that in the first fund [DPI raised], we looked at 510 deals to do nine investments. Since the summer of 2013, we have invested in two deals, another three are in the pipeline and we [have] worked on more than 250."

To date, the most common means of exiting is through a sale to corporates. According to research by AVCA, 44 per cent of exits were achieved this way, of which three-quarters were through sales to strategic buyers in the region.

There is also a growing number of secondary buyouts taking place between smaller African funds and larger pan-African vehicles, according to analysts. This trend that is strengthening, as the big global private equity firms step in. Ms Alam expects this to be complemented by more listings, which in turn will help deepen African capital markets.

Government Citizens are increasing disillusioned with what democracy delivers, says *William Wallis*

The failure of political systems is biggest threat to renaissance

Ghana: seen as a democratic trailblazer on the continent – Getty

The last time there was this level of sustained optimism about Africa was when the continent's many parts began breaking free from colonial rule. The economic revival has unleashed a wave of creative energy, inspiring hope.

A deadly epidemic of the Ebola virus has provided a reminder of how unforeseen crises can stall the momentum. But arguably now, as in the 1960s, it is the failure of political systems that represent the greatest threat to the renaissance currently under way.

On paper it does not look that way. Statistically, the coups, wars and dictatorships once symptomatic of a political malaise in many corners of sub-Saharan Africa, occurred largely in the 40 years preceding the millennium.

With some exceptions, the past decade and a half has been relatively peaceful. Constitutional rule – or something approximating it – is now *de rigueur* in all but a handful of African states. A coup is increasingly difficult to pull off in the face of international and regional measures to isolate rogue regimes.

Even the stubborn survivors of the cold war era, such as the nonagenarian Zimbabwean president Robert Mugabe, feel obliged to go through electoral motions. It is tempting to think that even the most entrenched autocracies have been cajoled into more liberal behaviour. Undoubtedly, in the age of mobile phones and the internet, it is harder to silence critics.

Yet, there is a sense of disenchantment creeping across the continent at the evolution of multi-party politics and the performance of the governments it throws up.

In a good number of states, voting has simply added trappings to a modernised form of one-party rule, where incumbent regimes use patronage, the control of electoral machinery and oppression to maintain power.

In others, there is the onset of a "democratic recession", where recent gains, including the imposition of two-term limits for presidents, have been rolled back or soon could be.

Even in some trailblazers, such as Ghana, where democratic institutions have been entrenched, there is disappointment at the inability of successive administrations to foster more egalitarian development.

"There is deep distrust of politicians but equally there is a feeling that democracy has not delivered better conditions and opportunities for many people," says Samia Nkrumah, daughter of Ghana's late independence leader Kwame Nkrumah and a political leader in her own right.

"We are not at the Arab spring. We can cast our votes freely when it is time for elections," she says, alluding to advances that helped prevent contagion south of the Sahara in the wake of north Africa's popular revolts. "But the discontent is there and it is simmering," she says.

According to Afrobarometer, the independent pollster, nearly three quarters of Africans polled for a 2014 survey expressed commitment to democracy.

The discontent of which Ms Nkrumah speaks is explained partly by a "deficit of democracy" noted by Afrobarometer, in which popular demand for democratic rule greatly exceeds the amount that elites are willing to provide.

Nigeria, the continent's leading economy and most populous nation, which faces a tense electoral contest next year against the backdrop of a brutal Islamist insurgency, provides one such example.

In a recent speech to a cross-party gathering, Patrick Dele Cole, a former diplomat and founding member of the ruling People's Democratic Party, warned that Nigeria is facing its greatest threat to national security since the 1960s. "The failures of our political system and the social instability it has created are the cause," he said. "The threats come from within. They are driven by our own internal divisions. By ethnicity and by religion. By corruption and by greed. The politics that overlay these issues . . . must also be the solution," he said.

It is unclear, however, where the momentum might come from. Compared with a decade ago, there are far fewer standout reformers in office.

> Popular demand for democratic rule greatly exceeds the amount that elites are willing to provide

"The ability of these political beasts to chew us up and spit us out is impressive," says John Githongo, the former anti-corruption tsar in Kenya, who was driven into exile before returning as a civil society activist.

"We have world-class artists, comics, writers, but then we have a Stone Age political class. Our model of politics isn't producing the leadership that can bring development beyond GDP growth," he says.

As the average age of Africans gets younger, the pressure for change is growing. In the worst instances, this has led to renewed conflict as young men unrepresented by the system and with few opportunities are driven into the hands of Islamist extremists.

In a more optimistic scenario it is this generation that will restore momentum towards more accountable rule. "There are a lot more young people who will be voting. And they have more energy and vim and will be less willing to take things as they are," says Ms Nkrumah.

Private equity remains a rarity in pension portfolios

Investment

Growth is hampered by regulatory hurdles and trustee reluctance, writes *Katrina Manson*

After work: pension experts say scheme members need higher returns – AFP

Kohlberg Kravis Roberts' first Africa investment served to highlight an anomaly.

One of the world's leading private equity firms, with $98bn in assets under management, KKR made a $200m investment in an Ethiopian company that grows roses for the global market. The June move saw it joining other global funds in putting the west's pension money to work in fast-growing Africa.

Yet, outside South Africa, most African pension funds continues to shun private equity opportunities on the continent.

Kenneth Kaniu, chief investment officer at Stanlib, says: "Pension assets [in Africa] are increasing at a rapid pace, but in terms of finding investment opportunities they are not keeping up and regulation is not as supportive as we would like." His company manages assets for 60 Kenyan pension funds and is keen to place money with private equity funds.

Insiders say African pension funds miss out not because the continent is failing to save for its future – sub-Saharan pension funds total more than $350bn – but because of a nightmare combination of regulatory hurdles, hesitant trustees and poor incentives.

In Nigeria the situation is stark: it invests just 0.22 per cent of the $26bn of pension assets in private equity, according to the National Pension Commission, Nigeria's pensions authority.

Back in Kenya, Mr Kaniu says: "Most pension fund trustees tend to be very risk averse. They just stick the money in government bonds."

Some investors argue that, as a result, pension cash is wasting away in solid but short-term, low-growth investments. Like their counterparts across the continent, Kenya's 16 pension fund managers have historically put their share of the country's growing pensions pot into safe, traditional assets.

Kenya's pension investments stand at $7.8bn, up 10-fold in the past decade and 27 per cent year on year at the end of 2013, according to the country's Retirement Benefits Authority (RBA).

More than one-third of Kenya's pension assets are invested in government debt, a quarter in equities listed on its domestic stock market and a small amount in property, the odd sizeable corporate bond and cash.

The last time a Kenyan pension fund made a private equity investment was in the 1990s. Kenya revamped its rules in 1997, but unlike South Africa – whose collective pension pot is among the 10 largest in the world, according to OECD data – it had not, until recently, allocated any pension money for private equity funds.

This year, however, the Kenya Power Pension Fund received regulatory approval to invest $4m with Ascent Capital, a new regional private equity fund that will back companies in Ethiopia, Uganda and Kenya. Henry Kyanda, Kenya Power Pension Fund trust secretary, acknowledges it is a small sum, but says it is a significant first step.

> 'Pension fund trustees tend to be very conservative in terms of risk appetite'

"Investing in private equity funds is a new concept in our market," says Mr Kyanda, who hopes allocations to private equity will soon grow to 10 per cent of the fund, the maximum allowed.

At the moment, private equity falls under an umbrella asset class named "other", which attracts the 10 per cent cap (though take-up is near zero) and requires specific regulatory approvals.

But the RBA wants to approve private equity allocations under a separate asset class that can comprise a maximum 15 per cent of a pension fund.

Pension fund investors hoping to tap private equity with its promise of high returns are keen to see the proposed change.

Private equity investors committed to invest $3.58bn in Africa last year. There is strong potential for more growth as family businesses seek capital to expand. Development finance institutions want to back job-creating companies and canny fund managers are finding ways to ride the region's middle class expansion via equity stakes in retail and other service companies.

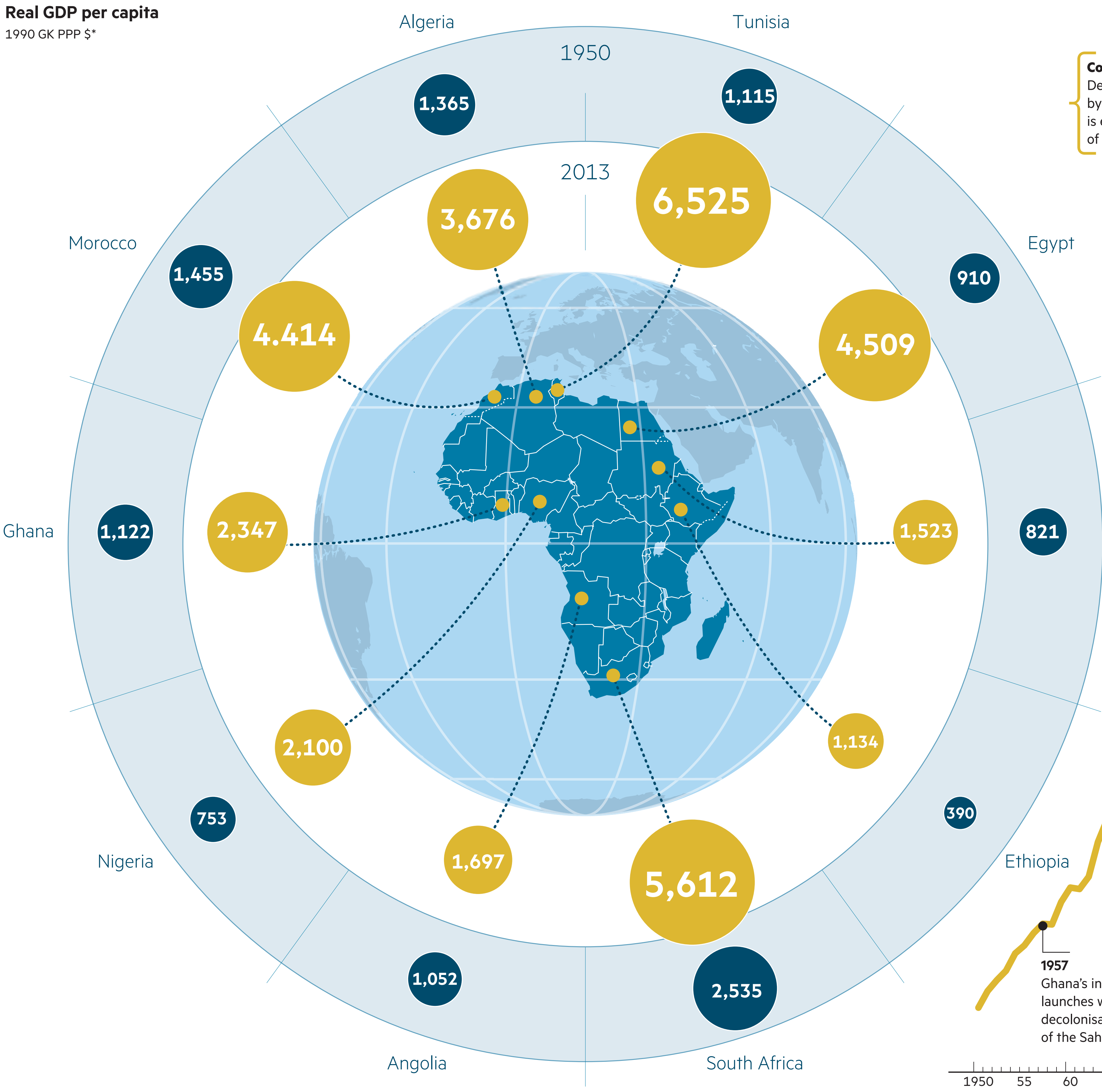
But it will not be easy. Pension funds work to long time scales, but board trustees tend to see things differently, says Rick Ashley, investment adviser and former chief executive of Old Mutual Asset Management in east Africa. "Part of it is short-termism from trustees. They want to see returns on their watch and to be re-elected," he says.

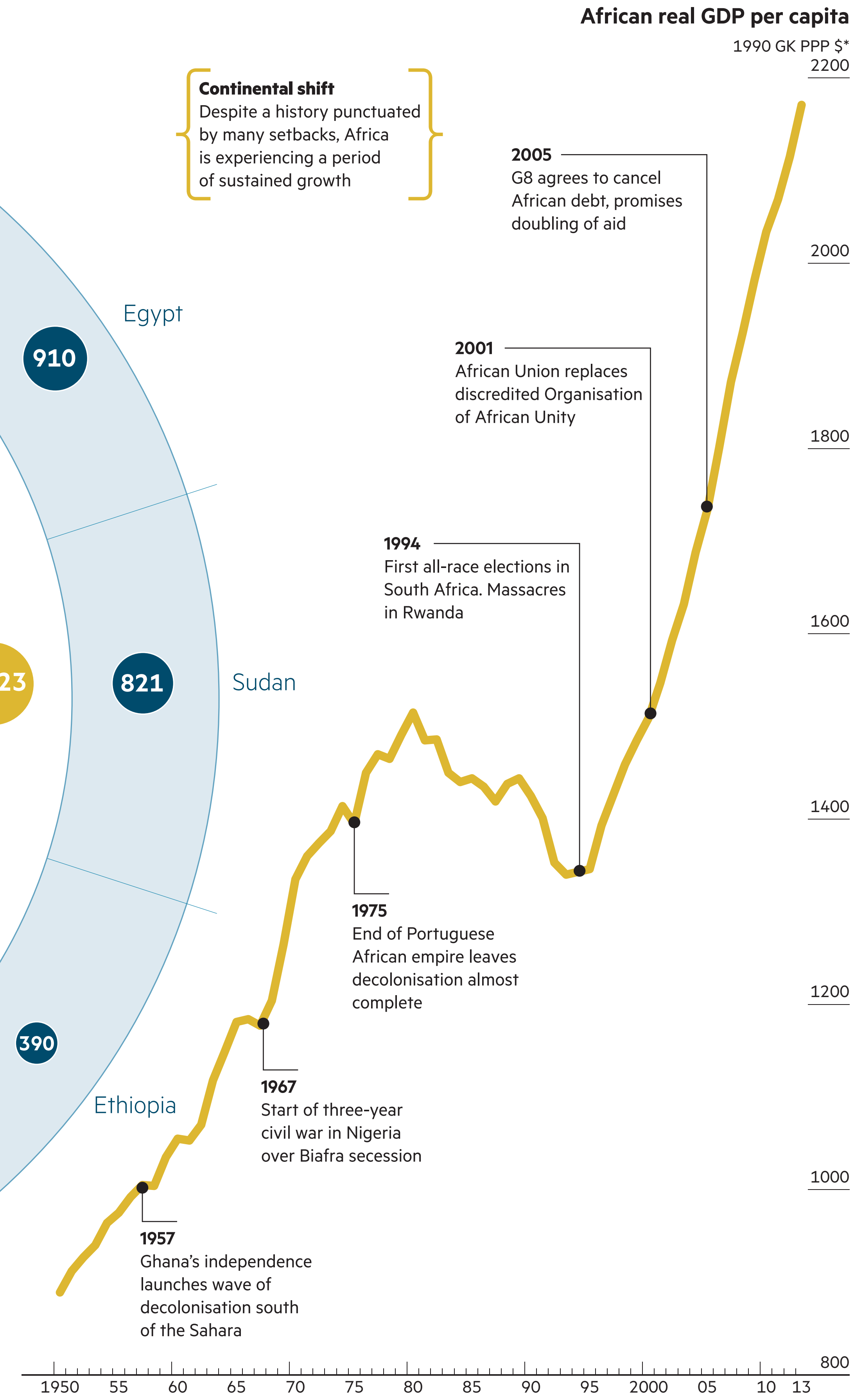
Mr Kaniu adds that many trustees are reluctant to seek regulatory approval to invest in private equity.

Some pension funds hope regulatory overhaul and training workshops will do the trick, while others believe they can spare trustees the time, expertise and responsibility in choosing a single private equity fund by setting up a pan-continental fund of funds to target pension cash.

"[Most fund managers] don't want to put their necks on the line at the risk of underperforming, in case it ruins their relationship with trustees," says Mr Ashley. "But it's a new asset class, so obviously it will take a while."

Growth accelerates





Source: Angus Maddison, Conference Board

FT Graphic: Kripa Pancholi

* Geary–Khamis Purchasing Power Parity adjusted dollar

Job creation critical to prevent social unrest

Economics Growth is not translating into employment, writes *Javier Blas*

"Where are the jobs?" The question was raised by a PhD student during a meeting this year of African finance ministers and central bank governors.

The officials were busy praising themselves for the virtuous circle of growth and better governance that became known as "Africa Rising". But the student, echoing the views of many others of his generation, was anxious to know when – or even, if – the growth would eventually translate into employment.

Sub-Saharan Africa is growing faster than at any time since the decolonisation period of the 1960s and 1970s, with the support of relatively high commodities prices, cheap finance from China and the emergence of a middle class. But the growth has been, and still is, unequal and has been accompanied by few new jobs.

Take Nigeria, the largest economy on the continent. According to the International Monetary Fund, the unemployment rate has risen steadily from 14.8 per cent in 2003 to about 24 per cent in 2011 in spite of strong growth.

The figure masks a more worrying statistic for youth unemployment, which is running at 56 per cent. Anecdotal evidence suggests the picture is similar in other large African economies.

Amadou Sy, a fellow at the Brookings Institution and former official at the IMF, explains that over the past 10 years, sub-Saharan Africa has grown by 5 per cent a year. "Sadly, this rapid rate of growth has not benefited the largest share of the population," he wrote this year in a research note.

When people in sub-Saharan African do find a job, it is often in the informal sector. Africa has the highest proportion of so-called vulnerable employment (defined as either self-employment or work by contributing family members) of any region in the world accounting for 77.4 per cent of the total labour force, according to the International Labour Organisation (ILO).

Persons in vulnerable employment are more likely than salaried workers

Youth joblessness: cause for concern

to have limited or no access to social security.

Jobs matter, especially in Africa, because many businessmen are betting on the phenomenon known as the "demographic dividend" – the idea that economic growth in a country is related to an increase in the relative size of its working-age population, as was the case in Asia from 1960-2010.

In Africa, the working-age population

> Low level of education is playing a significant role in keeping Africa at a disadvantage to Asia

is set to increase rapidly over the next few years. But if jobs are not created, social unrest could follow.

Over the past two years, other countries with high unemployment, including Brazil and Turkey, have seen people take to the streets in protest against their governments.

Rising unemployment in Africa has its roots in several factors: slower-than-needed growth; unequal economic expansion; lack of industrialisation; and inadequate education.

Unless the region resolves these problems, analysts and officials believe that unemployment could wreak havoc on the continent, bringing social unrest.

While Africa has enjoyed a renaissance, growth has fallen short of the "economic miracle" of Asia. As a whole, the region has missed the 7 per cent a year target that guarantees that the size of the economy doubles every decade.

According to the IMF, sub-Saharan Africa has grown faster than 7 per cent only on two occasions since 1980 – in 2002 and 2007.

By contrast, the developing region of Asia managed to maintain a minimum of 7 per cent growth a year on 18 occasions, while China was able to grow at that rate, or even faster, in 32 out of the past 34 years.

Worse, analysts say that rising inequality is playing a significant role in keeping large chunks of the nascent middle class vulnerable to slipping back into poverty while, at the same time, feathering the nests of those that are the wealthiest.

In Africa, inequality is holding back the number of poor people who enter the ranks of the middle class. While economic growth on the continent has averaged 5-6 per cent over the past decade, the size of the upper middle class – those earning $10-$20 per day – has grown at a rate of less than 2 per cent.

A key source of salaried jobs – the manufacturing sector – has been in decline even while Africa has enjoyed robust, if not strong, growth.

Over the past two decades, the share of manufacturing in sub-Saharan Africa has fallen, according to the Brookings Institution, in sharp contrast to Asia, which has become the world's workshop, thanks to a combination of skilled labour and low salaries.

Industry executives and officials offer different reasons for the lack of manufacturing, including electricity shortages, red tape and poor infrastructure. But there is agreement that the low level of education is playing a big role in keeping Africa at a disadvantage to Asia.

The ILO says "widespread underqualification" is making Africa's unemployment problem worse. Take the example of Malawi, one of the poorest countries in the region. The ILO says that data from school-to-work transition surveys show that 82 per cent of students were underqualified.

Conservatism increases as civil liberties are stifled

Freedom to dissent *Michela Wrong* says gay rights clampdown has extended to media and opposition

Stephen, who used to work for an international development organisation in Abuja, always knew that as a gay African he was vulnerable. Nigerian law, drafted on colonial lines, outlawed same-sex relations and the government's anti-gay rhetoric was growing ever more strident. Nonetheless, he and his partner drew up long-term plans, approaching investors for loans to build a boutique hotel.

Then, after a tiff with a neighbour over a parking space, one morning he found himself confronting a Nigerian policeman on his doorstep. "Our neighbour was standing next to the officer, shouting so everyone in the compound could hear: 'He's gay! he's gay!'"

Luckily, the policeman proved more interested in the parking dispute than Stephen's sexual orientation. But at that moment, everything changed. "I'd always known Nigeria wasn't gay-friendly, but I hadn't felt directly targeted. Now I realised I was at risk."

The couple scrapped the hotel project, applied for consultancy work abroad and left three months later. In January, President Goodluck Jonathan signed a bill introducing prison terms of up to 14 years for same-sex relations. "We're so glad, now, we didn't invest in Nigeria," says Stephen. "In retrospect, that incident was a stroke of luck."

Nigeria is not an exception in the region. Uganda has also passed a draconian anti-gay law (although a court ruling has halted implementation). Gambia is debating anti-gay legislation and parliamentarians in Tanzania and Kenya have called for laws to be made much stricter.

Unsurprisingly, a Gallup poll carried out in August, surveying 100,000 people in 123 countries, found nearly all the countries deemed "not a good place" for lesbian or gays to live were in Africa.

Analysts speak of a worrying disconnect between the optimistic "Africa Rising" narrative of recent years and the continent's performance on freedom of expression and human rights.

Once seen as a minority concern, the Lesbian, Gay, Bisexual and Transgender (LGBT) issue is now regarded by civil society and human rights groups as a litmus test of the overall relationship between government and its citizens.

Governments whose executive grip has been weakened by the devolution of powers and multi-party democracy find the LGBT agenda provides them with one area in where they can demonstrate strong, popular leadership. They are grabbing that opportunity with relish.

That same impulse is finding expression in legislation aimed at controlling the media, silencing opposition and curtailing the activities of civil society. Reports compiled by international watchdogs track a bevy of African administrations attempting, with varying degrees of success, to bottle the genie of political and public dissent.

The independent watchdog Freedom House publishes an annual "Map of Freedom". Areas judged "free" are shaded green, "partly free" yellow, and "not free" purple. The 2014 report shows an overwhelmingly purple and yellow patchwork, with only South Africa, Ghana, Benin and Senegal shaded in green.

The details make uneasy reading. In Uganda, on top of the LGBT legislation, Freedom House logs the passage of a Public Order Management Bill aimed at restricting opposition, media and civil society activity.

In Kenya, where the ruling Jubilee coalition has not forgiven civil society for backing the International Criminal Court prosecution of President Uhuru Kenyatta, a law is being debated that would limit the media's ability to comment on parliamentary proceedings.

Gambia, for its part, amended its Information and Communications Act and Criminal Code Act to enable crackdowns on public discussion, while introducing a ban on Skype use in internet cafés. Zambia's government uses its Public Order Act to harass the opposition, while Tanzania saw a rise in extrajudicial violence by security forces.

The watchdog concludes: "For sub-Saharan Africa as a whole, all seven categories of political rights and civil liberties have declined over the past five years, with the largest decreases in freedoms of expression and association."

Reporters Without Borders, the Paris-based media watchdog, gave a grim overview of press freedom in Africa in its 2014 report released in February. Predictably, journalists faced the biggest threats in areas of conflict. Somalia, where 18 reporters have been killed in terrorist attacks since 2012, North Kivu in the Democratic Republic of Congo, and Central African Republic are all listed as areas of particular concern.

> 'For sub-Saharan Africa as a whole, all seven categories of political rights and civil liberties have declined'

But the organisation also singles out for criticism several multi-party democracies that traditionally enjoy cordial relations with western donors. Five journalists remain in jail in Ethiopia. In Djibouti, seen as a key ally in the fight against Islamic fundamentalism, journalist Daher Ahmed Farah has been jailed five times and arrested on a dozen occasions since 2013.

In Burundi, legislation has been passed that makes it easier to jail journalists. "The law is all the more disturbing for being part of a legislative package that would also restrict freedom of association and political expression. Western governments do not, however, seem very bothered by Burundi's growing authoritarianism," says the watchdog.

Some analysts see an implicit quid-pro-quo being offered by African leaders who feel improving GDP figures permit more hard-fisted stances in other areas. Any such unstated deal is unlikely to wash, given the uneven way in which the benefits of higher growth are being distributed, with African elites seen as shoring up their positions as the slums expand. Even if the outcomes of the various revolutions to the north seem less-than-happy, the Arab Spring delivered a massive jolt to Africa, demonstrating how vulnerable even apparently indomitable regimes are when confronted with concerted action.

Jakkie Cilliers, of the Pretoria office of the Institute for Security Studies (ISS) warns, though, against imposing western standards on countries at different stages of their development. "It's ultimately self-defeating. Greater accountability and eventually democracy is coming to Africa, though perhaps not at the speed to satisfy domestic constituencies in western donor countries."

An ingredient likely to ensure African governments struggle to impose their authority, no matter how many laws they pass, is technology. The spread of the internet and growing popularity of social media make central control far harder to assert than in the past.

Closing a newspaper, which boasts large offices and a complex distribution network, is one thing. Closing a host of web-based political gossip rags that can be run from laptops quite another.

Contentious: Uganda has passed a draconian anti-gay law, although a court ruling has halted implementation — AFP

Inequalities mar the rise of a continent

continued from page 1

crossroads – it has enjoyed a good run, but the future looks less certain as economic headwinds blow stronger. A sign of the changing landscape is the annual Ibrahim Index of African Governance, published by the foundation of Sudan-born businessman turned philanthropist Mo Ibrahim. The index, published last month, shows a decline in standards of governance in 2013, breaking years of improvement.

Mr Ibrahim says the result is a call for what he calls an Afro-realist approach that "tempers historical Afro-pessimism and current Afro-optimism". Many share his view, warning of the dangers of taking a "one-size-fits-all" approach in a continent as diverse as Africa.

So far, the positive narrative of "Africa Rising" has prevailed, led by investors who have seen in the continent a new frontier for capitalism.

The African Development Bank (AfDB) estimates that this year the continent will attract a record of nearly \$85bn in foreign inflows, surpassing the 2013 peak. Portfolio inflows, which include equity and bond investments, are expected to rise to a record \$24bn. As recently as in 2001-03, Africa was registering negative portfolio flows, as investors withdrew money from what many then still called the "hopeless continent".

State-owned funds such as Temasek of Singapore and China Investment Corporation, large banks such as Citigroup and Barclays, and multinationals such as Nestlé and Unilever are pouring money into the continent.

The Carlyle Group recently closed its maiden private equity fund for Africa at \$700m, 40 per cent above target. Meanwhile, its rival Kohlberg Kravis Roberts made its debut in the region with an investment in Ethiopia. Institutional investors are following, allowing African governments and companies to raise equity and debt at prices that only a decade ago would have been unthinkable.

The billions of dollars in investment mask a more important shift: foreign investors, who long considered Africa only as a source for natural resources such as coffee, crude oil, copper and cocoa, now also see it as an emerging source of demand for manufacturers and services.

Slowly, a middle class is emerging and supermarkets are beginning to replace the ubiquitous informal shops and market places. True, the new middle class is fragile, with many barely above the poverty level, but it is growing. The AfDB estimates that Africa's middle class, which numbered just 115m in 1980, has grown to more than 325m in the past three and a half decades.

Christine Lagarde
'Africa rising is the "good news" part of the message– Africa watching is the second part'

But it is precisely in the same middle class that the sense of "Africa Watching" emerges. Jobs are lacking for a more educated generation, restless for opportunity. Fast economic growth is not translating into improved livelihoods for the majority. As Donald Kaberuka, president of the AfDB, puts it when he wants to temper the optimism of many African leaders, "you can't eat GDP". Instead, rapid economic growth is in many countries simply fattening the rich.

The new middle class, more educated and with easy access to social media, is also a source of political disillusionment. Two decades after pro-democracy activists won an important battle to include term limits in many countries, there are signs of constitutional tinkering to allow a host of African heads of state to prolong their rule. And some countries remain, de facto, one-party democracies.

At the same time, religious and ethnic faultlines are deepening in such places as Nigeria, Kenya and South Africa. And domestic unrest is on the rise, with South Sudan and the Central African Republic facing low-intensity wars, and Kenya and Nigeria battling the rise of Islamist terrorism. Minorities, including homosexuals, are under attack from draconian laws.

Observers of emerging countries may have a sense of déjà vu: after all, both Latin America and Asia suffered notable setbacks in their rise – including the Tequila crisis in Mexico in 1994 and the southeast Asia crisis of 1997 – that were mere bumps is an upward trajectory. They also recovered from political and social setbacks.

But Africa seems a lot more fragile and success will depend largely on political leadership that many observers say is today sorely lacking. Without it, the past 10 years of economic and political progress could be in danger.

Working with the neighbours pays off

Rwanda

The landlocked nation wants to make it easier for people and goods to cross borders, writes *Shawn Donnan*

The government of President Paul Kagame, who has for years maintained a firm grip on Rwanda's politics, has built a remarkable record for economic reforms.

As a result, two decades after the genocide that left almost 1m dead, the World Bank expects Rwanda's gross domestic product to expand by more than 7 per cent this year.

Now the country is embarking on the next step in its economic development, one that, if all goes to plan, will complete its transition from a small, poor, landlocked country with a tragic past and fragile neighbours into a regional trading and services hub.

In betting on trade as a way forward Rwanda is looking to overcome the difficult odds presented by its geography.

"We are known for being landlocked but we want to become land-linked," says François Kanimba, Mr Kagame's trade and industry minister.

It is also, says Valentine Rugwabiza, Rwanda's minister for the East African Community, playing a numbers game.

The country may have a population of less than 12m people, but it sits at the heart of a potential market of 143m consumers, she points out.

That offers a much more promising economic future.

By positioning itself as a regional hub for everything from financial services to education and healthcare, Rwanda has a far better hope of becoming a middle-income country such as Malaysia or even Singapore than if it relied on the organic development of its largely agrarian economy.

Long haul: it takes six days for goods to reach the port of Mombasa — Bloomberg

"The push here for regional integration is very pragmatic," says Ms Rugwabiza, who until September last year was based in Geneva where she served as the deputy director-general of the World Trade Organisation.

One of the first steps has been a push to ease the movement of goods and people with two fellow members of the East African Community, Kenya and Uganda.

The presidents of the three countries last year agreed to do everything in their power to reduce the bureaucratic and other delays at borders that have long plagued overland trade in Africa and often driven up the cost of simple consumer goods.

That effort has delivered results. It now takes an average of six days for a container to make the overland trip between Kigali and the Kenyan port of Mombasa, the route taken by most of Rwanda's exports and imports.

In a 2012 study, USAID researchers found that it took almost 18 days on average for exports to make the trip from Kigali to Mombasa and on to ships bound for international markets.

"In the past year, we have seen more progress than in the previous 10 years," says Frank Matsaert of TradeMark East Africa, a body funded by western donors including the US and UK that focuses on reducing trade barriers between African states.

> 'We are known for being landlocked but we want to become land-linked'
> François Kanimba

"There's a quiet revolution going on and it will have a profound effect on [east Africa's] competitiveness."

The gains have come largely by simplifying procedures at borders and by finally implementing regulations agreed to almost a decade ago by the members of the East African Community that allow customs inspections to be carried out wherever goods land.

One-stop border posts have been established and the country's three presidents have also declared war on unnecessary weigh stations and check points along the way.

The improvements on the Kigali-Mombasa trade corridor have spurred Tanzania, another member of the East African Community, to react. Its government has vowed to do what it can to improve the competitiveness of the corridor from the port of Dar es Salaam into Kigali, another vital link for Rwanda, as most of its fuel imports come by that route.

But Rwanda's ambitions do not end with making overland trade easier.

The 12-year-old state-owned national airline, RwandAir, is expanding its network of flights to other African capitals. The carrier may be lossmaking, but the goal is to make Kigali a hub for travel within the continent and amplify its role as a services centre, says Mr Kanimba.

"As a country, you can be landlocked. But you cannot be 'air-locked'," he says.

The country is also working with Kenya and Uganda to remove barriers to the movement of people.

Their citizens can now travel within the three countries without passports. Students from all three are treated as nationals at any university in the region.

The government in Kigali has also sought to ease the conditions for work permits for professionals in an effort to attract talent from neighbouring countries.

By the end of 2014, the goal is to eliminate mobile phone roaming charges. Also under way is a push to reduce non-tariff barriers and establish common standards for things such as food and pharmaceutical products.

Rwanda may have had an ugly past but these days it is betting that its neighbours hold the key to a prosperous future.

Contributors

Javier Blas
Africa editor

Shawn Donnan
World trade editor

Andrew England
Southern Africa bureau chief

Katrina Manson
East Africa correspondent

William Wallis
African affairs writer

David White
FT contributor

Michela Wrong
FT contributor

Emma Boyde
Commissioning editor

Steven Bird
Designer

Chris Lawson
Picture editor

For advertising details, contact: **Mark Carwardine**, +44 (0) 20 7873 4880 and mark.carwardine@ft.com, or **Larry Kenney**, +44 (0) 20 7873 4835, larry.kenney@ft.com, or your usual FT representative.

All FT reports are available on FT.com at ft.com/reports

Follow us on Twitter at: @ftreports

All editorial content in this supplement is produced by the FT. Our advertisers have no influence over or prior sight of the articles or online material.

Lower-cost handsets help drive internet revolution

Telecoms Rapidly increasing penetration of mobile phones is opening up many other opportunities in health, finance and education, writes *Daniel Thomas*

New technology: M-Pesa enables money transfers via cellphone
– Bloomberg

The battle among the world's largest tech and telecoms groups to connect Africans has intensified in the past year, with drones and blimps brought in to provide the first sight of the internet for many in the region.

The vast scale of the continent makes generalisation difficult. The more tech-savvy smartphone users in southern Africa are a very different proposition from those in areas in central Africa where infrastructure remains rudimentary.

In such areas, technology takes on different roles as companies navigate challenges from political revolution to Ebola scares – from educator and healthcare provider to bank and business partner. But the opportunities are still clear for many of the world's biggest companies in Africa.

The key attraction remains the rapidly growing population, according to Marc Rennard, executive vice-president of Orange and head of African operations across more than 20 countries and 106m customers.

"The population was a third of Europe after the second world war. But 70 years later, Africa will be three times the size of Europe," says Mr Rennard. "Africa is about new use, whereas Europe is about renewal."

And each new user will need a smartphone and a mobile network, and will then in turn will want to use mobile banking and education, search engines and social media, video on demand and a host of other internet services.

Technology groups such as Google and Facebook want to connect with these consumers.

Mark Zuckerberg took to the stage at Mobile World Congress this year to push Internet.org, an attempt to bring affordable internet to emerging markets. As Mr Zuckerberg said at the conference, it will be good for the companies as well as the world.

Similarly philanthropic-sounding initiatives are being worked on by Google – which has been linked with the efforts to bring the internet to remote areas through drones, hot air balloons and low orbit satellites.

However, telecoms executives agree that cellular mobile coverage – and mobile devices – will be the main means by which people will access the internet.

A report into the region's technology sector by Sweden's Ericsson forecasts that the number of mobile subscriptions in sub-Saharan Africa will rise from 635m at the end of 2014 to about 930m by the end of 2019.

Mobile data traffic is expected to rise 20-fold between 2013 and 2019 – twice the rate expected in the rest of the world.

"The digital concept has entered the lower-to-middle class consumer segment," Ericsson found, "as well as those businesses operating outside of the city."

Handsets subsidy is rare and the price of devices has been the main barrier, but this is rapidly changing.

Google is tackling the delivery end of the internet by aiming to provide low-cost handsets to people in emerging markets, including Africa, under its Android One project.

Operators also want to be the first to put phones in the hands of people. Millicom sells smartphones at less than $50.

Orange now sells smartphones priced below €40. Such devices cost more than $200 two years ago – far beyond the reach of many Africans – but the sharp fall in price has caused a tipping point in smartphone usage on the continent.

> 'Africa is about new use, whereas Europe is about renewal'

Mobile is now the easiest way to access the internet, according to Mr Rennard.

Serpil Timuray, regional chief executive for Vodafone in Africa, says: "With more than 115m customers in Africa, Vodafone is witnessing an explosion in data usage."

The opportunity is not just to provide the basic technology or networks to consumers, but also to give them the tools to make the best use of the internet. In particular, companies have identified the potential in the provision of education, banking and healthcare services using their networks.

Vodafone has, for example, created a quasi-currency through the M-Pesa mobile money transfer system. The operator is also working with mobile-based medical education programmes in countries such as South Africa.

Orange, similarly, is using services in health, education and finance to lure customers to its networks. These services do not make the group much profit, Mr Rennard admits, but win customers in poorer countries.

Mr Rennard points to Orange Emergency Credit, which offers a small loan to customers to use their phones in an emergency once they have run out of prepaid credit. The service has so far made loan transactions to 20m active users.

In an attempt to match the popularity of Vodafone's M-Pesa, Orange has also agreed partnerships with African banks to expand its mobile money services, which are already used by 11.5m customers, who made €2.2bn worth of transactions in 2013.

The gold rush is over, according to Enda Hardiman, managing partner at Hardiman Telecommunications, a boutique strategy consultancy, with companies now focused on consolidation and sustained growth.

Even so, the opportunities to become the gateway to the internet remain attractive. "Last week, I was in Ivory Coast. The next week in Senegal and then afterwards Egypt," says Mr Rennard. "Everybody wants to be in the internet world."

Companies find that nice things come in smaller packages

Consumer goods

Many overseas companies thought the African middle class would grow faster than it has, says *Katrina Manson*

Alongside the traffic-jammed road to Nairobi's airport lies a fast-expanding factory. But while Orbit Chemical Industries' production of soap, detergents, make-up and packaging are all up in recent months, there is a twist to this classic tale of consumer-fuelled African growth.

The factory produces goods not for one multinational, but several. In a series of warehouses, products from Colgate-Palmolive, L'Oréal and Unilever are all lining up.

Sachen Chandaria at Orbit says individual companies find it hard to build scale, which is why global corporates would rather contract out their Africa manufacturing than set up their own factories. "But having a site like this, where everybody's volume is in one place – everybody benefits from the scale."

There's no doubt the model works for Orbit, the contract manufacturer whose turnover has increased more than five-fold in the past six years, to $100m a year. "Every one of our customers is much larger than they were five years ago, six years ago," says Mr Chandaria.

Some of Orbit's produce is sold as far away as Angola and South Africa, and even in Afghanistan. Its model is an unusual one, but it is one that appears to be worth emulating. It plans to expand into brownfield sites in South Africa, Nigeria and Ethiopia next year.

But their very success reveals the limits to the African growth story. A senior executive at a global corporate based in east Africa says of disappointment over the extent of the hoped-for consumer boom: "We over-anticipated Africa – the myth of this region is that it's doing what China did.

"The middle class is coming quite quickly, but it remains relatively small and hasn't really grown yet to the level that people talk about. A lot of companies that focused on this idea of Africa as the next Asia have burnt their fingers and pulled back."

They can perhaps be forgiven their early enthusiasm. Economic liberalisation and relative political stability was achieved across much of the continent in the 1990s, unleashing economic growth – and with it, consumer spending – as never before.

Sub-Saharan African economies attracted global corporates after growing at average annual rates of above 5 per cent over the past several years, according to IMF figures. Multinationals saw the chance to supply an underserved consumer class with everything from phones to beer.

In 2011, the African Development Bank said in a landmark report that 313m Africans could be classified as "middle class". However, they defined that as people spending as little as $2 a day and repeatedly offered the caveat that many were vulnerable to sliding back into poverty.

But only three years later, after multinationals such as Nestlé and Unilever have pumped millions into expanding their Africa operations, more sobering assessments are starting to come out.

In August, Standard Bank estimated that the subcontinent's middle class in its 11 most significant economies outside South Africa runs to only 15m of 110m households (13 per cent), based on a more realistic consumption level of at least $15 a day. Standard Bank expects the figure to reach 40m by 2030.

Although growth in some areas has been high – at 600 per cent in the past 14 years in Nigeria, for example – east Africa, in particular, has not met expectations. The so-called "demographic dividend" – delivering 1m new Kenyans a year – may not pay off either.

"East African countries may be expecting the most rapid population growth rates in the world, but are struggling to keep pace with the income advance needed," says the bank, which considers that only 4 per cent of Kenyan households can be considered middle class.

In this context, reaching the very poor becomes increasingly important for consumer goods companies. "We're not getting to the bottom of the pyramid because people still can't afford it," says the corporate executive, who notes people tend to switch to packaged goods only once income per capita reaches "the hot zone" of $1,000-$1,500 a year, more than in any country in east Africa.

Orbit begs to differ. By suggesting reductions of its customers' packaging to almost unthinkably small proportions, it has boosted sales of detergent powder by 300 per cent.

"We said [to our client]: 'There are a lot of people who want your product but are not able to buy it because they can't afford it, because you're asking them to lay out too much cash at once'," says Mr Chandaria. Orbit advised the client to repackage its wares in packs one-20th their usual shelf size and charge twice as much per kilo because of the extra cost in production and distribution. As a result, it reached a new set of rural consumers. "It's about access, it's not about pricing," he says.

The most appealing sales segment for now, however, remains the food sector, since it consumes 80 per cent of average household spending, which is why Orbit has just acquired Ma Cuisine, a small, high-end Kenyan jam and condiments brand. Now, all anyone has to do is wait.

"It might not be for 10, 12 years, but the market will get to inflection point," says Mr Chandaria.

Not about price: Sachen Chandaria

US and Europe fight back as China's influence grows

Traditional partners Engagement is focused on economic potential and security, says *David White*

Higher profile: the EU-Africa summit aimed to reinforce links between the two continents – Getty Images

African leaders have seen rather a lot of each other in western capitals in the past 12 months. They were invited to Paris for a France-Africa summit last December, to Brussels for an EU-Africa summit in April and then to Washington for a first-ever US-Africa summit in August.

The US has been a late convert to this kind of Africa-wide exercise, seeking to reaffirm its standing in a region where it and Europe face ever-increasing competition. Evidence of this fresh determination is the scaling-up of US resources sent to Liberia to help contain west Africa's Ebola outbreak, following criticism of the western response.

Rapid expansion of other interests across the continent – Chinese above all, but also Indian, Brazilian and others – has done much to make Africa's traditional partners refocus their approach.

"It has forced Europe and the US not to take Africa for granted," says Nick Westcott, the EU's top Africa diplomat.

China emphasised its rise as an economic power and financier in Africa with a landmark Beijing summit eight years ago, since when it has almost quadrupled its African trade, overtaking first France, then the US.

Longstanding spheres of influence have eroded. Tanzania, for example, still relies on US, British and other European aid but has turned to China for roads, power plants, a gas pipeline and a huge new port. India and China have become leading investors and the country's top trading partners, selling everything from medicines to motorcycles.

Have Europe and the US lost Africa? Mzukisi Qobo, who teaches international political economy at the University of Pretoria, says they still carry weight. "It is just that they have not paid as much attention as was the case before," he says. "The vacuum has been filled by China."

While attracting their own portion of resentment, the Chinese are widely regarded as being more attuned to poor-country needs and are less inclined to interfere in countries' domestic arrangements. African governments, chafing at the perceived high-handedness of western donors and international institutions, are often adept at playing partners off against each other.

Mr Qobo notes a shift in emphasis by both the US and Europe "from political rhetoric to commercial diplomacy".

For Europe, Africa continues to matter because of its proximity, migration, the impact of instability and, of course, the chance to cash in on African growth. And Africa still looks largely to Europe for aid and markets. While China has surged ahead as Africa's largest single commercial partner, registering $210bn in two-way trade last year, that was only half as much as EU countries.

After growing unevenly over the past decade, however, EU members' trade with Africa still represented less than 4 per cent of their worldwide trade last year, Eurostat figures show. For the US, the share is even smaller, barely 2 per cent in 2013 and declining, according to the US Census Bureau.

> India and China have become leading investors and top trade partners

The US shale oil boom has sharply reduced its requirements for oil. Total first quarter US imports from sub-Saharan Africa were down by a third compared to a year earlier, and from Nigeria, a long-time US supplier and customer, by two-thirds.

Two main themes – economic potential and security – have taken precedence in both the US and European approach to engaging with Africa.

Security is one of the areas in which China's involvement – other than as arms provider to client regimes – is low key, although it has joined UN peacekeeping missions and deployed warships on anti-piracy patrols.

The US, which maintains an operational hub at a former French Foreign Legion base in Djibouti along with a scattering of drone bases, has been generally content to let France play the military lead role, concentrating more on counter-terrorism support and training.

After years of questioning about its military role, France undertook interventions last year in Mali and the Central African Republic. With forces stationed in eight former African colonies, it recently launched a wider operation to combat Islamist extremists across the Sahel zone. The EU has taken responsibility for a follow-up mission in the CAR, its seventh African military operation since 2003.

On the economic front, the US – with a big private-sector input – and the EU have each trumpeted figures in tens of billions of dollars for funding and investment. No less importantly, they offer Africa prospective markets for more than just raw materials.

A key issue is the renewal of the African Growth and Opportunity Act, which gives qualifying countries access to the US for many goods without duties or quotas and is due to expire next September. A long-term extension will be critical to US leverage on the continent.

Targeted actions to improve position of women are paying off – but slowly

Gender equality

Many nations just pay lip-service to the issue, blighting growth prospects, writes *Michela Wrong*

There was a telling moment, early in Bola Adesola's high-flying banking career, when the value of a woman's perspective became abundantly clear.

At an executive committee meeting of the bank where she worked, colleagues were discussing the company funding of employees' medical treatments.

"They were willing to pay for prostate treatment but had automatically ruled out antenatal care or fibroid treatment. So I said: 'You may not get fibroids, but I don't suffer from prostate trouble.'"

Until her appointment, the board had been all-male. "They simply hadn't realised the policy was unfair. It took the presence of a woman to point that out."

Ms Adesola, who is today chief executive officer of Standard Chartered Bank Nigeria, has spent much of her career making similar interventions.

Twelve years ago she was part of a group that set up Wimbiz (Women in Management, Business and Public Service), a non-profit organisation aimed at raising women's profiles and influence in Nigeria.

In 2012, she was appointed to chair a subcommittee on women's economic empowerment by the Central Bank of Nigeria, key backer for a $1.2bn microfinance development fund, 60 per cent of which is earmarked for women-run businesses. African women, she says, need such targeted actions.

While naturally entrepreneurial – "there's barely a Nigerian woman who isn't running a business of one sort or another" – they are far more financially cautious than their male counterparts.

Ms Adesola is convinced such efforts are paying off. "Progress may not be as rapid as we would like, but a continental consciousness is spreading about the need for female representation and greater diversity at all levels of society."

Yet sub-Saharan Africa's corporate sector appears to be moving only slowly towards gender parity, lagging behind a faster-moving political world.

A few decades ago, an African female head of state might have seemed a fluke. Today, Ellen Johnson Sirleaf has been president of Liberia for more than eight years, few doubt the competence of Nigerian Finance Minister Ngozi Okonjo-Iweala, South Africa's Nkosazana Dlamini Zuma chairs the Addis Ababa-headquartered African Union, and Graça Machel is probably as respected for her role as human rights campaigner and African "elder" as she is for being widow to two heads of state.

Less visible, but indicative of change, the introduction of gender quotas in elections is transforming the profile of African parliaments too. On average, women now account for 22.6 per cent of national legislatures across sub-Saharan Africa, putting the region only slightly behind the Americas and Europe and ahead of Asia, the Pacific and Arab states.

The gender balance in the boardroom, in contrast, is more skewed. A Wimbiz census in Nigeria found only 16 per cent of board members at commercial banks, insurance companies and government banks were women in 2013, barely changed on the previous year.

While 27 per cent of top management positions at the commercial banks were held by women in 2013, insurance companies and government banks recorded a disappointing 20 and 14 per cent respectively.

In South Africa, the continent's other economic powerhouse, the share of working women in senior management positions has been static for the past seven years.

A survey by Grant Thornton Business, the professional services company, shows only 26 per cent of top jobs are filled by women and 21 per cent of local businesses have no women at all in senior management.

The World Bank's Development Report for 2012 recorded that 79 per cent of jobs held by African women were in "vulnerable" employment – either self-employed or working as unpaid family members – compared with 63 per cent for men.

Since female labour-force participation is also much lower in northern Africa and swaths of west Africa, according to the Food and Agriculture Organisation, growth prospects are blighted by the fact that nearly half the workforce is unused.

It is a picture that exasperates Stella Nkomo, professor of Human Resource Management at the University of Pretoria, who says when asked about women's representation in Africa: "There's no doubt that things are better for women overall in Africa; there's been progress. But the question remains: is it fast enough?"

She sees targeted actions such as Nigeria's earmarked fund, as necessary to correct ingrained imbalances. But there is a frustrating gap, she says, between the expanded presence of women in African parliaments, senates and cabinets, and the policies coming from those very institutions.

"All African nations pay a lot of lip service to the issue of gender equality, but more deliberate interventions are needed if there's to be any real change when it comes to the things that matter to women," says Prof Nkomo.

Ellen Johnson Sirleaf, president of Liberia

Expanding financial sector draws increasing interest from investors

Just a quarter of adults in sub-Saharan Africa have formal bank accounts, but bankers are bullish, says *Andrew England*

When Bob Diamond, the controversial former chief executive of Barclays bank, announced that his new investment vehicle was making its first foray into Africa, it triggered a flurry of attention on the continent's banking sector.

He hopes to revive his career by betting on the future of the world's least banked continent. His investment vehicle, Atlas Mara, splashed out $265m on BancABC, a low-profile midsized southern African bank with operations stretching from Botswana to Zimbabwe. He rapidly followed that deal with stakes in Union Bank of Nigeria and the Development Bank of Rwanda.

Diana Layfield, chief executive for Africa at Standard Chartered, speaks of a "pretty dynamic market".

"We've seen competition for people, we've seen a lot of hiring . . . and now we are seeing new investors in the financial services sector, an obvious one being Atlas Mara," Ms Layfield says.

This year, Standard Chartered opened a bank in Angola, Africa's second-biggest oil exporter and its third-largest economy, while Citigroup opened a branch in Lubumbashi, the Democratic Republic of Congo's mining centre, in 2013. Barclays, meanwhile, completed a deal that saw it combine its Africa operations with Absa, its subsidiary and one of South Africa's top four banks, now rebranded Barclays Africa.

For now, much of the activity is about building footprints and positioning for growth as the deal flow across the continent remains relatively small. With the exception of South Africa, which boasts a $1tn stock market, capital markets are small and often illiquid.

One investment banker comments: "There are far too many banks chasing the opportunities that are there today. Everybody thinks they have to have some kind of presence in Africa and do something.

On the retail side, just a quarter of adults in sub-Saharan Africa report having an account at a formal financial institution, which is less than half of the global average of 51 per cent, according to the World Bank.

Yet bankers are bullish about Africa's trajectory, as the continent's mineral wealth helps drive some of the world's fastest expanding economies, mushrooming middle classes are driving growth in sectors such as services and consumer goods.

On the back of this, African banks are also flexing their muscles and moving further beyond their borders.

South Africa's big four – Standard Bank, FirstRand, Absa/Barclays Africa and Nedbank – have been pursuing such strategies for several years.

Standard Bank, for example, has been disposing of international assets, while refocusing on Africa where it has a presence across 19 nations. In the first six months of this year, Africa, excluding South Africa, contributed about 30 per cent of the group's revenue, nearly three times what it was five years ago. FirstRand, meanwhile, said last month that it had set aside R10bn ($900m) to expand in Africa, with an eye on setting up operations in Ghana, Kenya and Angola. Ambitious west and east African lenders are also taking a more pan-African approach.

Branching out: Standard Bank is disposing of international assets and refocusing on Africa where it has a presence in 19 nations — Bloomberg

Two of Kenya's biggest banks, Equity Bank and Kenya Commercial Bank, both of which have operations across east Africa, this year announced plans to expand into new countries, with the latter considering southern African nations including gas-rich Mozambique and copper-producing Zambia.

In the west, Nigerian banks have long been spreading their wings. United Bank for Africa boasts a presence across 19 African states, while Access Bank is in seven African countries.

Bismark Rewane, a Lagos-based financial analyst, says Nigerian banks are now being more selective in their expansion plans, "cherry picking and looking at countries were they can support Nigerian businesses".

"They are not just opening in countries for the sake of it," he says.

Still, Samuel Maimbo, a finance expert at the World Bank, says the increasingly competitive terrain should benefit the consumer, and could help ease the challenges smaller businesses face accessing capital.

"There has been an increase in the quality of basic banking services for retail customers, and for small and medium enterprises. It's going to be an increasingly important niche," he says.

There have been some serious bumps along the way. Ecobank, one of the pioneers of the pan-African banking model and which boasts a 35-country network, was plagued for months by a governance crisis that eventually led to the ousting of its chief executive.

In South Africa, the largest provider of unsecured lending, African Bank, required a $1.6bn rescue package to save it from collapse.

The latter caused Moody's to downgrade South Africa's top four banks and put a spotlight on the rapid growth of unsecured lending. But African Bank has been characterised as an isolated case and banks' appetite for African exposure shows few signs of dimming.

"It does require a diversified banking sector with not everybody doing the same thing and that's what you are increasingly seeing, which is a good thing," says Ms Layfield.

Better governance is the only sustainable solution

POINT OF VIEW
TRANSFORMATION

Mo Ibrahim

When I first started talking about the potential for investment and business opportunities in Africa some 20 years ago, I found myself an isolated voice. That turned out to be good for me – and the few others who saw, invested, and reaped wonderful rewards from that potential – but not so good for the continent.

A narrative that branded Africa as little more than an economic, political and social basket case was not likely to provide the investment needed to drive development.

After a startling transformation, Africa is now seen as a rare source of optimism. The continent's recent record of GDP growth looks set to continue.

At the recent US-Africa Leaders Summit, it was striking to see the very strong representation from the American private sector. The business forum co-hosted by Michael Bloomberg brought leaders such as Jeffrey Immelt and David Rubenstein together to discuss Africa's investment potential. This was an unprecedented and powerful advertisement for doing business on the continent.

However, just at the moment that the African narrative was finally shifting away from poverty, disease and corruption to one of dynamism and opportunity, the twin challenges of rising extremism – in particular Boko Haram – and the Ebola virus came to dominate the news headlines. These events seemed to contradict the "Africa Rising" narrative.

There is, however, a common thread of governance connecting the continent's successes and its challenges. Increasing extremism – across Africa and the world – must be understood in the context of the failure of our leaders properly to manage diversity within their borders. As Ban Ki-moon, the UN secretary-general, powerfully articulated during the recent UN general assembly, "missiles might kill terrorists, but good governance kills terrorism".

Insufficient care was taken to ensure that Africa's economic growth was inclusive, equitable and job-creating, particularly for young people. We are now seeing the consequences of that. Better governance is the only sustainable solution to our peace and security challenges.

With regard to the Ebola virus, it is clear that the Mano River region faces an unprecedented public health crisis. The political will and resources to meet this threat need to be mobilised. But it is important both to understand why Ebola is taking such a toll and to put it in broader context.

Guinea, Liberia and Sierra Leone are in a post-conflict region, so they confront Ebola with fragile governance structures. Their presidents have shown strong leadership in tackling the virus but lack the resources to respond. Mortality rates among the infected are high, not only because of the virus itself, but because of the state of the healthcare systems in the affected countries.

This is highlighted by the success of Senegal and Nigeria, both with more robust healthcare infrastructures, in containing the disease.

We must do everything we can to help the affected countries with this health issue, but we should be very careful not to make matters worse by taking measures to hurt their economies. Already, the closing of borders and cessation of flights to the affected countries is having a hugely damaging effect. Projected food shortages are creating the possibility of a humanitarian crisis.

In a subregion emerging from conflict, the danger of backsliding towards social unrest and even violence is ever-present.

While observing all the World Health Organisation-mandated protocols for containment of this outbreak, we must attempt as far as possible to normalise trade and travel to those countries. We must target the disease, not the citizens of Guinea, Liberia and Sierra Leone.

> Africa is open for business. The fight against Ebola cannot undermine the fight against poverty

Africa is and remains open for business. The fight against Ebola cannot undermine the fight against poverty. There are 50 African countries with no incidence of Ebola. Africa should not again face isolation or stigmatisation based on ignorance and unrepresentative imagery.

The understandable fear that this disease generates must be confronted by logic and humanity.

When we view the continent through the prism of good governance, rather than fear and crude stereotypes, we can reconcile these seemingly conflicting views of Africa – on the one hand full of potential, on the other facing serious problems.

As Africa rises, our ability to face our greatest challenges will be determined by how strong, inclusive and equitable are our institutions.

The lesson to take from recent events is that good governance underlies our successes and bad governance explains our problems. Therefore it is this good governance agenda that should bring us all into alignment – citizens, civil society, government and business, both local and international – to ensure that Africa continues to rise and takes us all along with it.

Mo Ibrahim is a Sudanese-British mobile communications entrepreneur and chair of the Mo Ibrahim Foundation

POINT OF VIEW
INFRASTRUCTURE

Donald Kaberuka

Continent starts to become master of its own destiny

Africa's economy has grown fourfold since the turn of the millennium, with sub-Saharan Africa outperforming the rest of the world in terms of economic growth and at long last banishing any doubts about the continent's upward trajectory.

Apart from the 10 African countries that still have an African Union or a UN peacekeeping presence, 85 per cent of Africans live in countries that are at peace and relatively stable, and are generating 95 per cent of the continent's gross domestic product. Indeed, of the world's 10 fastest-growing economies, seven are from Africa.

That is not the only positive fact. Average incomes have risen by 30 per cent in the past 10 years, having declined by 20 per cent between 1980 and 2000. Strong commodity prices have been central to the turnround, but other factors have played a part. Rwanda and Ethiopia, for example, although not blessed with oil or mineral wealth, are among the strong performers. Nonetheless, across the continent significant challenges remain. Poverty is falling but in most places not fast enough. Social indicators have been improving but inequalities remain. And, although foreign direct investment has increased significantly, job creation remains a struggle.

The reasons for those negatives are not difficult to fathom. There has been limited structural change or diversification. Agriculture's share of GDP has declined. At the same time, manufacturing growth has been hampered by fragmented markets, while poor infrastructure, particularly a shortage of energy and port capacity, remains acute.

That said, eliminating poverty in the next two decades remains an achievable goal. If the right policy framework is in place and bottlenecks are eliminated, we can look forward to a new Africa.

It is important to remember that the so-called "New Africa" is made up of 54 countries in five regions. Africa is not a single monolithic whole. The current Ebola crisis has again revealed the tendency of those outside the continent to classify it as one entity. The notion of the 21st-century "scramble for Africa" is every bit as pernicious as was the first "scramble" at the end of the 19th century. The only safe generalisation is that Africa is planning, managing and starting to finance its own destiny.

> The continent's primary task is to close the $50bn annual infrastructure funding deficit, which costs 2% in annual GDP growth

The continent is being influenced by the four big trends. First, the emergence of a multipolar economic world, bringing new investment sources and export destinations, development experience and knowhow. Second, the demographic potential, the "human capital", of a young and increasingly urbanised continent of 1bn people, which is expected to double to 2bn by 2050, with two-thirds living in cities. Third, the continuing discoveries of large amounts of natural resource wealth, and the challenges of managing and sharing that wealth. Fourth, the continuing opportunity to leapfrog more developed regions in many sectors through the use of technologies such as the mobile phone.

So how can Africa turn economic growth into true economic transformation? First, the continent needs to achieve real regional economic integration through the building of road, rail and air linkages, opening up borders and eliminating needless "soft" regulatory standards hindering trade.

Second, Africa needs better management of its natural resources to ensure that it takes advantage of the current strong cycle of commodity prices. Commodities should not be sold on the cheap. Instead, they should be processed in value chains and exported on fairer trading terms.

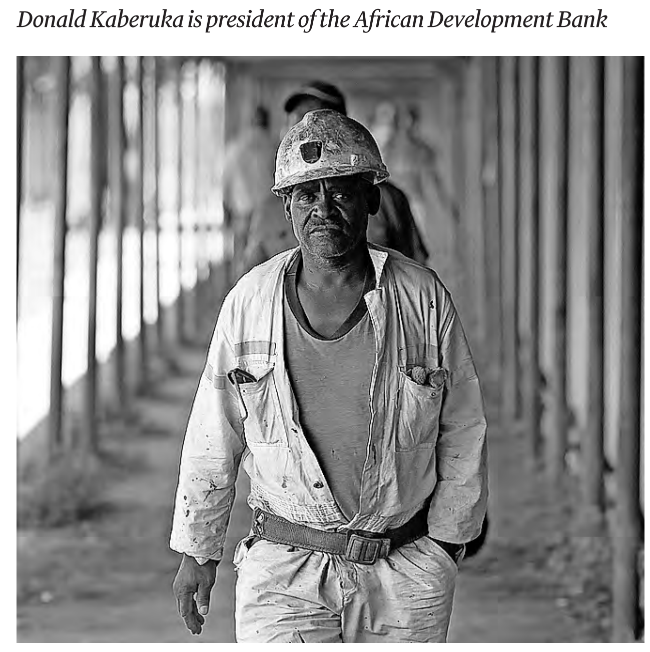
Third, we need to address the challenges faced by those African states that are still experiencing the fragility that is inherent in the development process. This year, I set up a high-level panel under Liberian President Ellen Johnson Sirleaf to address this issue.

At the root of all these challenges is the gap in African infrastructure, which is both the means to trade and the route to economic and social development. The continent's primary task is to close the $50bn annual infrastructure funding deficit which costs it at least 2 per cent in annual GDP growth. Private capital is a large part of the answer, in the form of foreign private equity, debt and the untapped resources of African pension funds and capital markets.

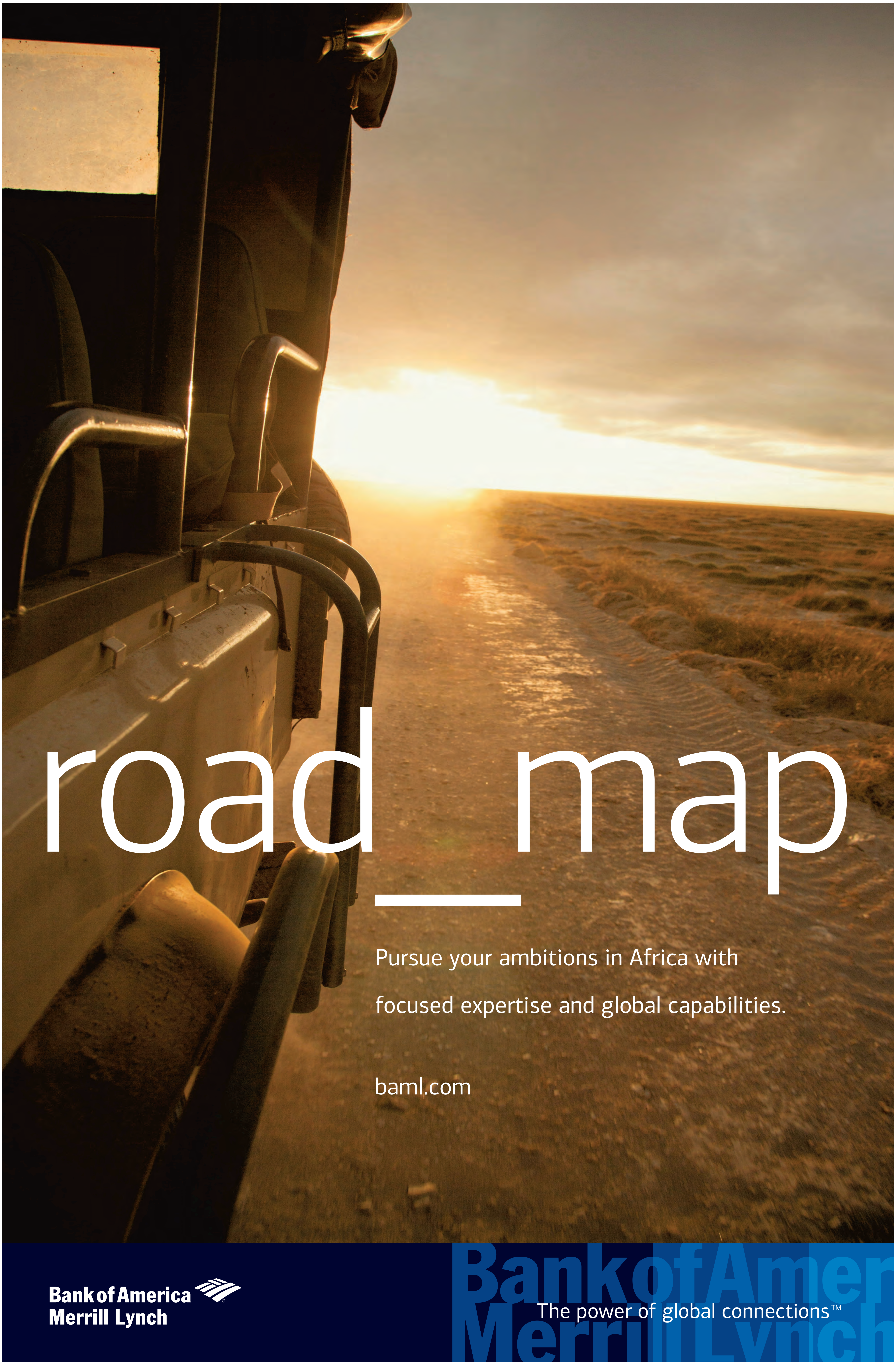
The key is to take the risk out of the equation. Today, the prerequisites are in place: in the policy and regulatory areas, the public-private partnership frameworks, and independent regulators. The tools of risk mitigation – such as credit guarantees – are also in place, giving comfort to investors, especially in "high-risk" and low-income countries.

Africa is no longer the place for "business as usual". Today, it offers a different value proposition, as it moves towards economic transformation.

Donald Kaberuka is president of the African Development Bank



Mining: Africa needs to move up the value chain — Getty Images


road_map
Pursue your ambitions in Africa with
focused expertise and global capabilities.
baml.com
Bank of America
Merrill Lynch
The power of global connections™