

Africa:

‘Unpacking its past; Predicting its future’



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Quotes on Africa



“The darkest thing about Africa has always been our ignorance of it”
– George Kimble

“Africa does not need strong men, it needs strong Institutions”
– Barack Obama

“Africa is poor because its investors and creditors are unspeakably rich” –
Naomi Klein

*“No other continent has endured such an unspeakably bizarre combination
of foreign thievery and foreign goodwill”*
– Barbara Kingsolver

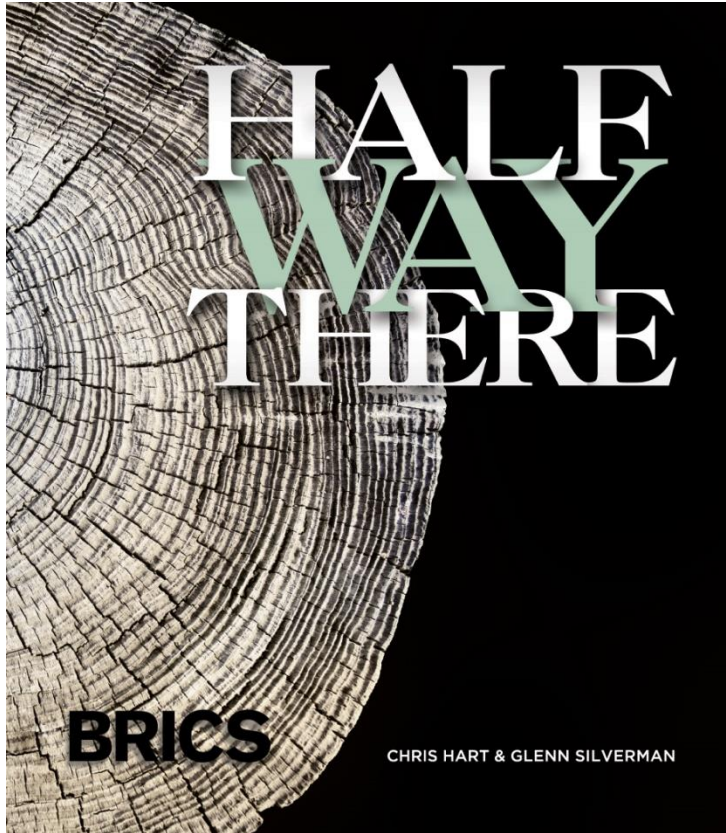
“Africa is not for sissies”
– Unknown

Africa - A brief overview



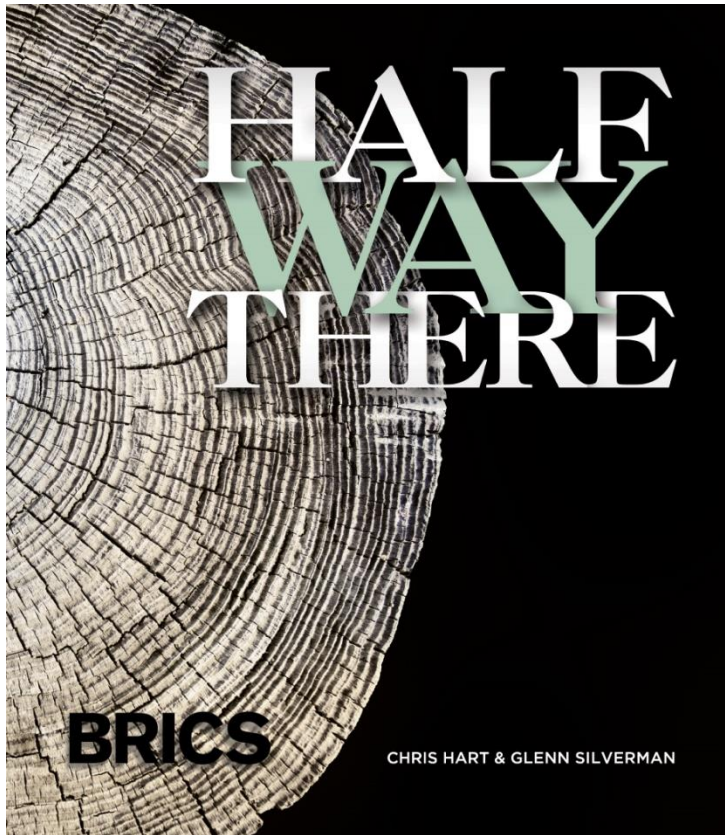
- **Large:** 20% of global land mass; **Population** of 1.2bn (to double to 2bn+ by 2050)
- **Complex:** 54 countries; **1,500** languages; **3,000** distinct ethnic groups
- **Young:** Median age: 19 years vs Europe: 43 years
- **Rich history/culture:** **135** UNESCO world heritage sites

Book: HalfWay There



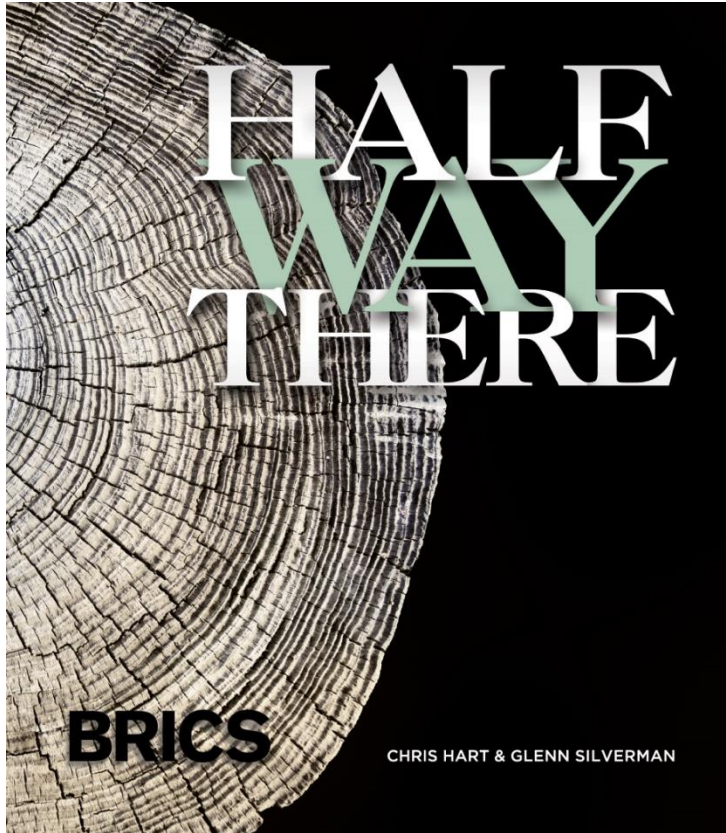
- Co-authored & published: 2014
- Key stats:
 - 2½ years in the making
 - Raised **1m+** for charity
 - **50** contributors
 - **> 90,000** km
 - **14** major cities
 - **81** meetings
 - **33** tours
- African relevance
 - The 5 lenses
 - The 3 Asian giants
 - Lesson learnt

Halfway There: The 5 lenses



- 1 National Scars
- 2 The Political Economy
- 3 Economic Value Chains
- 4 Capital Allocation
- 5 National Transitions

Lens 1: The 'National Scar'



- A defining socio-political / economic event (a national trauma)
- Deeply embedded in the national DNA / psyche
- Affecting both current & future policy

The National Scars:

- **Brazil:** Hyperinflation
- **Russia:** Collapse of Communism; Foreign threat
- **India:** Colonialism; Corruption; Red tape
- **China:** Communism; Foreign dominance
- **South Africa:** Apartheid

Agenda



A. Africa's **past** (ito scars)

1. Colonialism
2. Resource curse
3. Leadership
4. Tribalism
5. Corruption

B. The **present** (challenges)

C. Africa's **future** (ito megatrends)

1. Finite earth
2. Demographics
3. Technology
4. Shifts of power
5. Financial repression



Africa's past

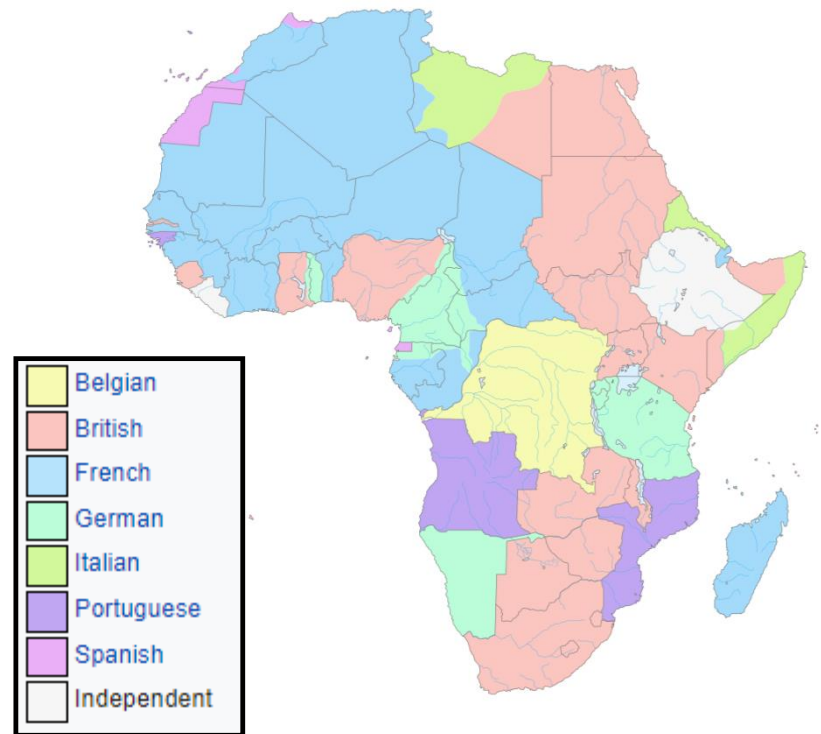


1. Colonialism

A

- The Berlin Conference (1885)
 - 7 colonial powers divided Africa up
 - Into 50 irregular countries
 - With zero African participation
 - Ethiopia stands out
- The 1st scramble for Africa
- 3 key drivers:
 - Economic
 - Political
 - Social

Colonial powers on the African continent,
1913



The Berlin Conference (135 years ago)

The colonial legacy

A

- Economic
 - Access to / looting of resources
 - Development of infrastructure, 'but'...
 - Creation of export market
- Political
 - Brought European rules, politics, governance to Africa
- Social
 - Surplus population (settler colonies)
 - Exaggerated ethnic divisions



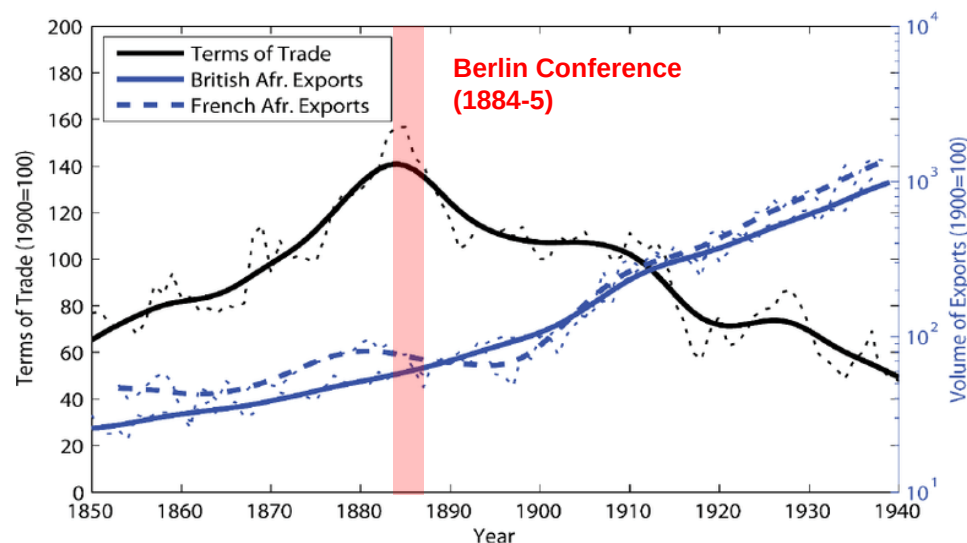
**“Divide and rule, weaken and conquer, love and enslave,
these are the three tenets of politics”**
- *Bangambiki Habyarimana*, Rwanda

The post industrial revolution impact

A

- Transportation:
 - Ability to transport raw materials back to Europe
- **Manufacturing capacity**
 - Increased demand for African resources
 - **Ability to mass produce finished goods (for sale to Africa)**
- Lead to worsening of terms of trade
 - By 1940, Africa's terms of trade had fallen to 1800's levels

Terms of trade for sub-Saharan Africa, 1784-1939 (1900=100)



Notes: Excluding South Africa, Mauritius, Madagascar and Reunion. Smoothed trend derived using Hodrick-Prescott filter, with a smoothing factor set to 100

2. Resource curse ('the paradox of plenty')

A

- Term coined by Richard Auty (Lancaster University) in 1993:
- Describes how resource rich countries unable to use that wealth to boost their economies
- Resource price volatility has significant impact
- Resource wealth often leads to conflict

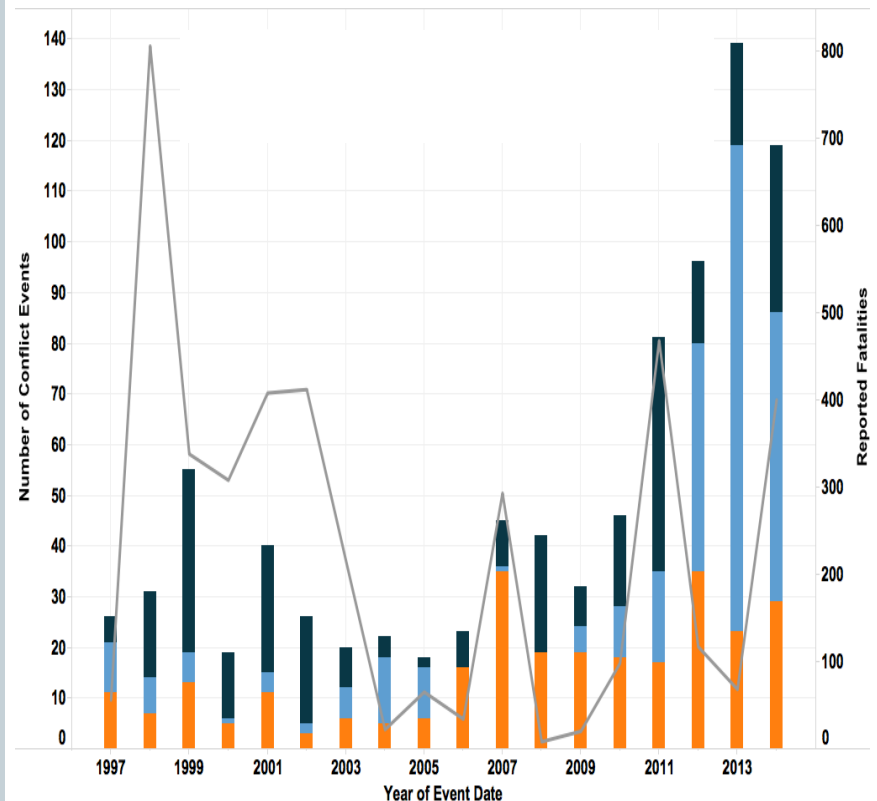
**“Earth provides enough to satisfy every man’s needs,
but not every man’s greed.”**

- Mahatma Gandhi

2. Resource curse - Conflict

A

- 4% of the world's diamonds are conflict diamonds
 - Eg. 40% of diamonds from DRC have unknown origins ('blood diamonds')
- 4 million deaths due to diamond mining
- Often extracted informally -> Tends to fund further conflict



ie. Resource abundance doesn't always lead to increased wealth, further economic development etc

3. Leadership

A

- Africa has a poor track record:
 - Tribal leaders
 - Despots & Dictators
 - 'Big Men/The Great Leader'
- With all the associated consequences:
 - Corruption; Nepotism
 - Ethnic tension; Human rights violations; Censorship
 - Violence; War
 - Anti-western sentiment; Socialism etc



**“In a democracy, you believe it or not.
In a dictatorship, you believe it or else”**

- Evan Esar

4. Tribalism

A

- Pre-existed but exacerbated by colonial powers
- Tribal loyalty exploited, often for personal gain, leading to:
 - Intergroup conflict
 - Corruption
 - Patronage
 - Cronyism
- Hampered nation-building
 - Internal divisions
 - Xenophobia



Tribalism: Examples of conflict

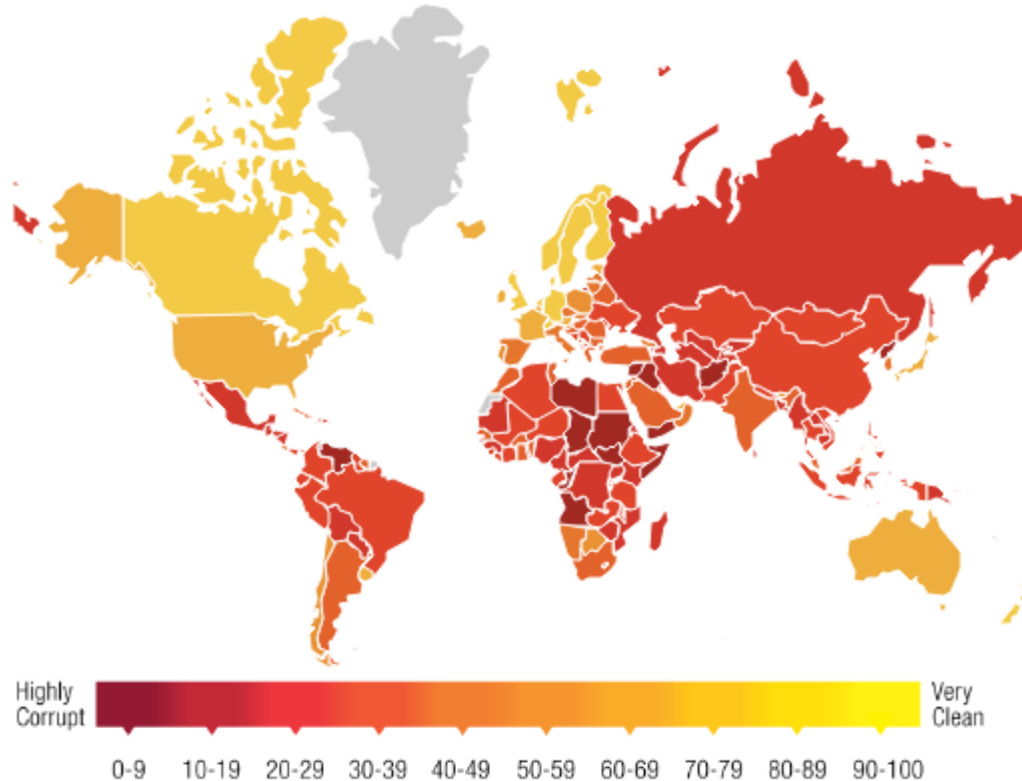
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- Rwandan genocide (1994)
 - Hutu vs Tutsi
 - 800,000 dead
 - 3m displaced
- Kenyan post-election violence (2008)
 - Kikuyu vs Luo
 - 1,400 dead
 - 600,000 displaced
- South Sudan (2013)
 - Dinka vs Nuer
 - 50,000 dead
 - 2,3m displaced

5. Corruption

A

Corruption Perceptions Index (2018) – Country Scores



Source: Transparency International

“Corruption chips away at democracy to produce a vicious cycle, where corruption undermines democratic institutions and, in turn, weak institutions are less able to control corruption.”
- Patricia Moreira, *Transparency International*

Corrupt leadership



- The use of public office for private gain
 - Eg. State Capture; Nepotism; Cadre deployment
- Enabled through:
 - Weak institutions
 - Weak judiciary
 - Lack of free press
 - Patronage-driven politics
 - Concentration of state power
 - Low level of civic society involvement etc
- Hugely damaging
- Vital that Africa moves away from such
 - On balance, would seem to be improving
 - But then came the Zuma period, & SA is now reeling...(!)

The present



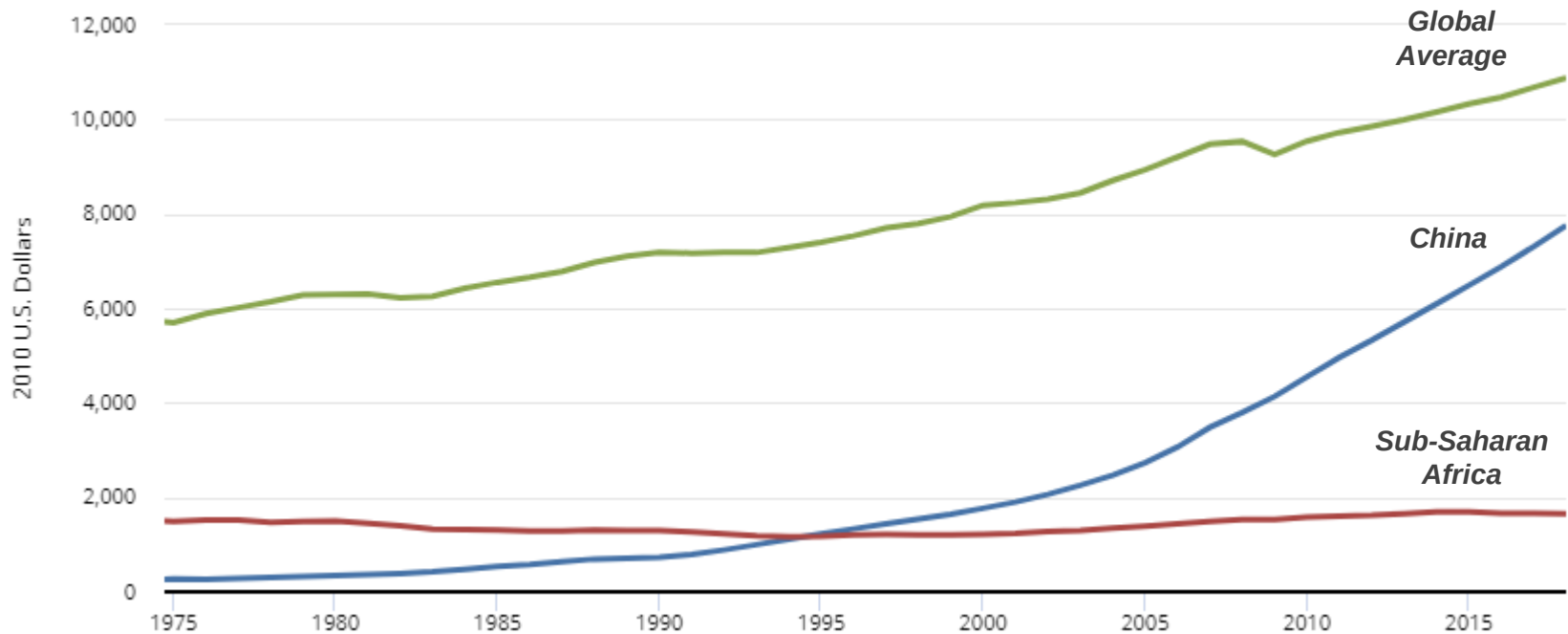
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Challenges: 1. Income levels

B

GDP per capita (constant): SSA vs. rest of world (1975 – 2018)



Source: World Bank

Challenges: 2. Growth-jobs-poverty

B

- Informal sector remains key source of employment
 - 70% of jobs in SSA
 - 62% of jobs in NA
- Agricultural sector remains dominant job source
- Economic growth not always coupled with job growth
- Africa suffers from high level of unemployment **and** under-employment



“A first priority for African governments is to encourage a shift toward labour-absorbing growth paths”

Growth-jobs-poverty: Informal employment

B

- Highest share of informal employment in the world (>70%)
- 94% of workers with no education are informally employed
- Increasing formal sector requires:
 - Improved labour regulation
 - Better institutions & support
 - Moving away from socialist policies
 - Improved ease of doing business

Share of informal employment (%)



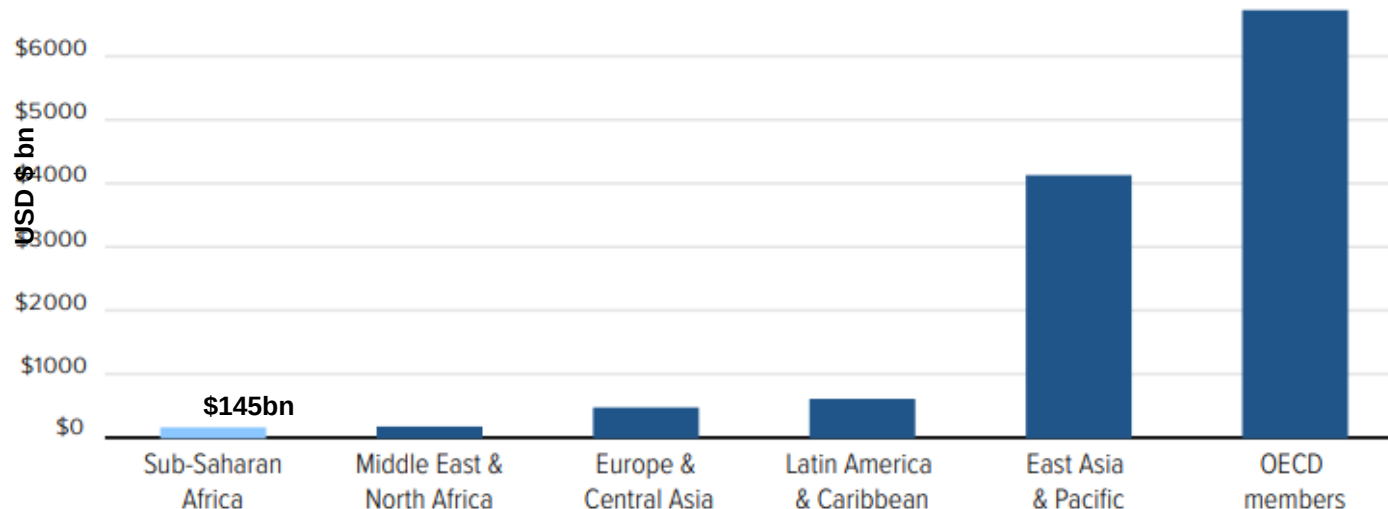
Growth-jobs-poverty: Role of manufacturing

A

- Historically, the best path to economic development
- Ability to absorb large numbers of workers
- Creates hubs from which other activity grow
- 100m (est) labour-intensive manufacturing jobs to leave China by 2030

Q: Opportunity for Africa? Impact of 4IR?

Regional comparison of manufacturing value added (2017)



Source: World Development Indicators. For comparative purposes, high-income countries are excluded from all regional aggregates other than OECD. OECD data are 2016. All data are current USD.

Growth-jobs-poverty: Role of manufacturing

B

Requirements for accelerating African manufacturing performance:

- Better infrastructure
- Quality education & skilled labour force
- Strong institutions
- Increased access to credit
- Higher technological adaption
- Improved productivity...

Not so easily achieved

Challenges: 3. Other



And other challenges exist too:

- Political & Currency risk
- Hostile, inconsistent regulators
- High cost of doing business in Africa
- Weak private sector & civil society
- Macroeconomic data
- No one size fits all

Risk management needs to be the cornerstone of any African strategy

Some recent SA experience in Africa:



- **Tiger Brands**
 - Sold businesses in Nigeria; Partially exiting Ethiopia & Kenya
- **MTN**
 - Failure to disconnect unregistered SIMs - \$1.5bn fine
- **Liberty**
 - Abandoned expansion strategy; Exiting various countries
- **Sun International**
 - Shareholder dispute in Nigeria; Plans to exit country
- **Hyprop**
 - > R1bn impairment in Nigeria & Ghana. Sale of RoA
- **And others...**

Current economic outlook

B

Macroeconomic developments in Africa, 2010 - 2020

Indicator and country group	2010-14	2015	2016	2017	2018 (estimated)	2019 (projected)	2020 (projected)
<i>Real GDP growth (%)</i>							
Central Africa	5.0	3.3	0.2	1.1	2.2	3.6	3.5
East Africa	5.9	6.5	5.1	5.9	5.7	5.9	6.1
North Africa	3.7	3.7	3.2	4.9	4.3	4.4	4.3
Including Sudan	3.6	3.7	3.2	4.8	4.3	4.4	4.3
Southern Africa	3.8	1.6	0.7	1.6	1.2	2.2	2.8
West Africa	6.2	3.2	0.5	2.7	3.3	3.6	3.6
<i>Africa</i>	4.7	3.5	2.1	3.6	3.5	4.0	4.1
Excluding Libya	4.4	3.6	2.2	3.0	3.5	3.9	4.1
Sub-Saharan Africa	5.2	3.4	1.5	2.9	3.1	3.7	3.9
Excluding South Africa	5.9	3.9	1.8	3.3	3.6	4.2	4.3
Oil-exporting countries	4.7	3.3	1.5	3.2	3.4	3.8	3.7
Oil-importing countries	4.6	3.7	3.1	4.2	3.8	4.3	4.5

Outlook: The good vs the bad



The good:

- Ethiopia (+8%)
- Ghana (+8%)
- Cote d'Ivoire (+7%)
- Kenya (+5%)
- Egypt (+5%)

(2018 GDP growth)

The bad:

- Zimbabwe
- South Africa
- Angola
- DRC
- Nigeria
- South Sudan

Key differences: Base effects; Making the correct policy choices

Example: Ethiopia - background

B

- Population: 102m (2nd largest in Africa)
- Very long history; Much of time as monarchy
- Twice invaded by Italy; Remained independent; Liberated post WW2
- First African member of the League of Nations; UN & others
- Most UNESCO sites in Africa
- Many civil conflicts in '70s & '80s; Terrible famines ('83-'85 & 2011)
- Overthrow of Communist military junta ('91) **
- War with Eritrea ('98); State of Emergency ('16)
- Elected new Prime Minister, Abiy Ahmed ('18)

Overall: Proud ancient history, yet far more checkered recent one
Would you pick this country as a winner?

Example: Ethiopian - choices & outcome



Choice:

1. Sweeping economic reforms
2. Investment into infrastructure, agriculture & education
3. Semi-privatization of the 4 'crown jewels'; Plans to privatize SOE
4. Development of industrial parks (light manufacturing)
5. Plans to launch domestic stock exchange in 2020

Outcome:

1. 10% growth for > 10 years (but off a low base)
2. Improved efficiency; More competition
3. Job creation; growth in manufacturing sector; exports
4. Shift toward economic liberalisation
5. Attracting FDI

“If you give me \$100bn now, I can’t use it ... that’s why we need the private sector”

- Dr. Abiy Ahmed, *Ethiopian Prime minister*

Example: Ethiopian - choices & outcome

A



- Employees: ~13,000 (Start: 1945)
- Fleet size: 117
- Destinations: 125 (P) + 44 (Cargo)
- Government-owned
- Net profit ('17/18): \$233m
- Unfettered by govn intervention;
Run as a business



SOUTH AFRICAN AIRWAYS

- Employees: ~10,000 (Start: 1934)
- Fleet size: 44
- Destinations: 57 (Passenger)
- Government-owned
- Net losses every years since '12
- Multiple interventions; Cadre deployment; Corruption etc
- Debt: R17bn; Equity -R18bn (3/17)

The future...



Megatrends: Threats but also opportunities

©

1. Finite Earth
2. Demographics
3. Shifts of Power
4. Technology
5. Financial Repression



1. Finite earth



Climate change likely to hurt the continent disproportionately:

- Warming
- Droughts; Desertification
- Adverse affect on agriculture & fishing
- Food security
- Flooding
- Water insecurity
 - Eg. Loss of 40bn work hours pa owing to water collection
 - Cause of recent civil wars?



“When you try to create infinite growth on a finite planet, either the planet gets bigger or the economy stops growing”

- Paul Gilding – The Great Disruption (2011)

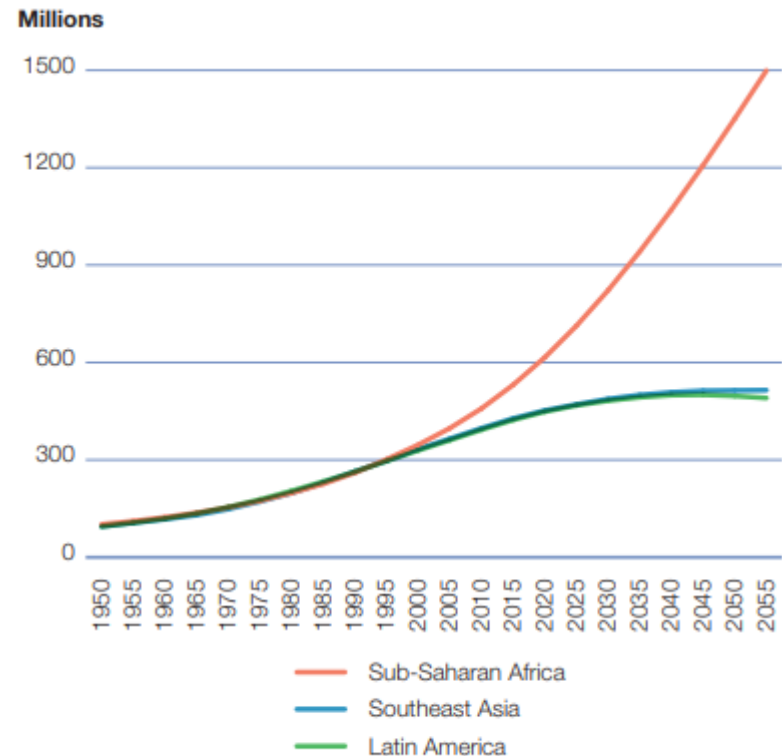
2. Demographics: Dividend or disaster?



Dividend:

- Huge population growth:
 - **1985:** 550mn
 - **2015:** 1.2bn
 - **2050:** >2bn (f)
- Huge increase in 15-64 year old working age bracket
- Fastest urbanising region
 - 4% vs 2% global ave
- Child mortality
 - 66% decrease ('90-'15)

Working age population (15 – 64)



“The time has come for Africa to remove obstacles and move toward reaping demographic dividends”

Demographics: Dividend or disaster?



Disaster:

- 600m+ Africans still live without electricity, of which 100m live in urban centres
 - 90% of the people living in rural areas live in darkness
- Cities unable to absorb massive influx → Slums, crime etc
- Poor city planning; Poor infrastructure; Lack of investment
- Lack of jobs; Lack of social services
- Higher cost of living

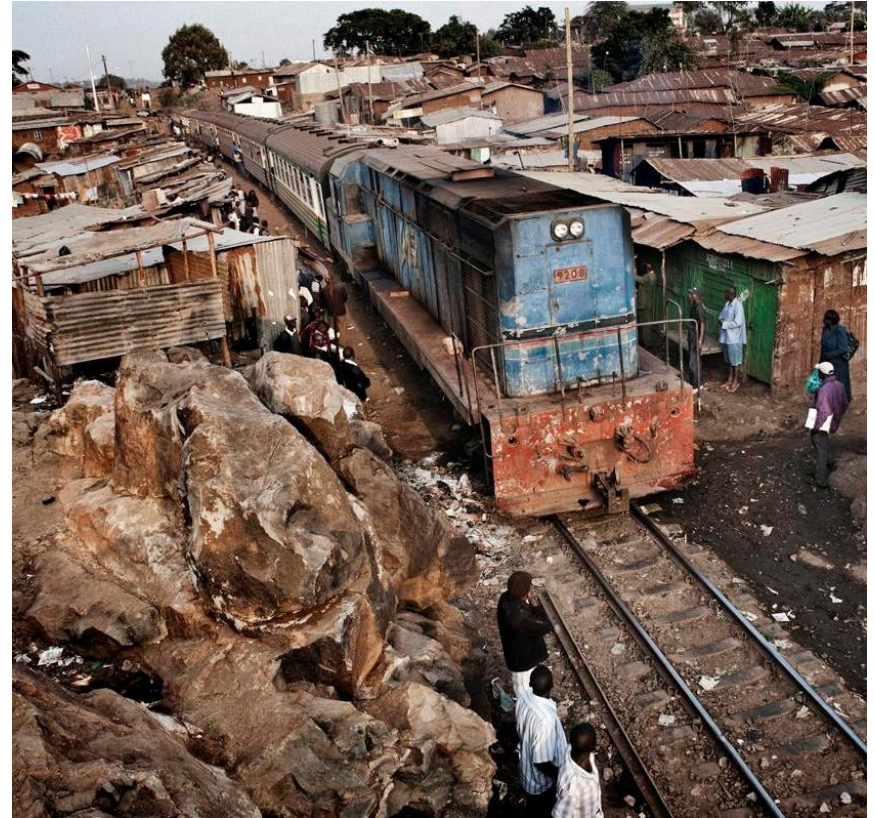
“Cities must become incubators of formal economic & employment growth to combat challenges associated with rapid urbanisation”

- Center for Strategic & International Studies

Demographics: Urbanisation challenges



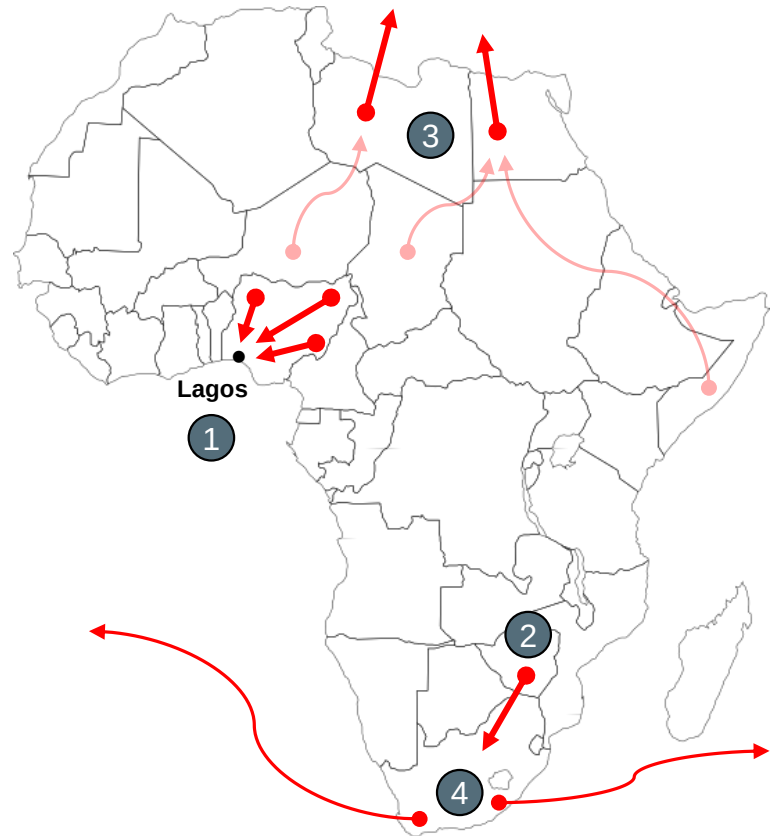
- 61% of urban African population lives in slums
- Share of population living in slums:
 - South Sudan 96%
 - Ethiopia 74%
 - Kenya 56%
 - Nigeria 50%
 - South Africa 23%
 - Egypt 11%



Demographics: Migration



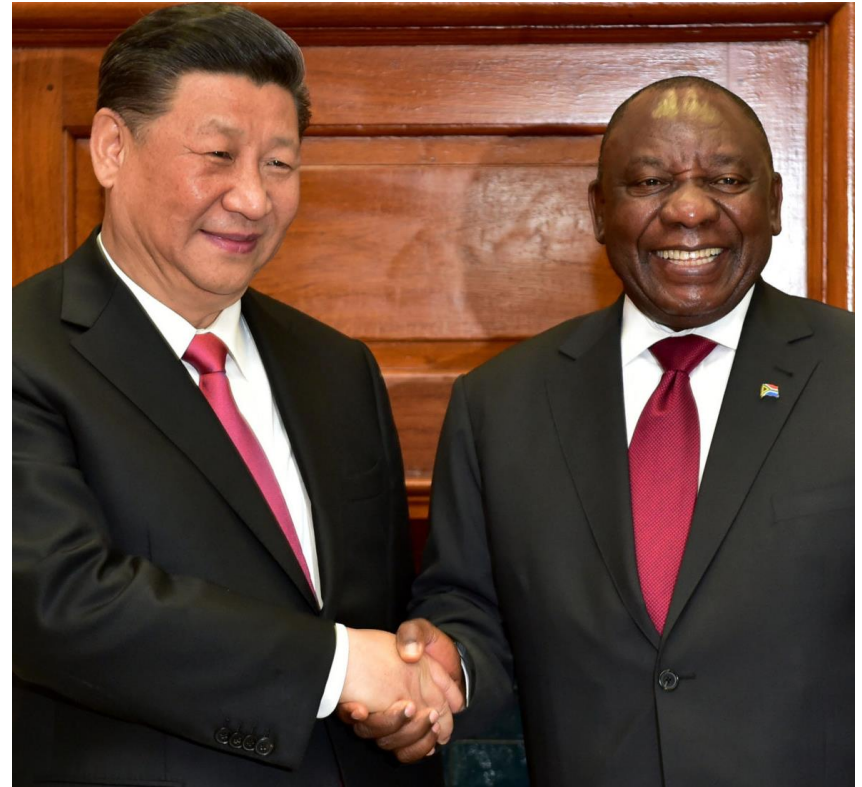
- Key migration trends, from:
 1. Rural to urban
 2. Poorer to richer
 3. Africa to Europe
 4. SA to the world
- Climate change having big impact
- Implications:
 - Loss of talent
 - Stretched resources
 - Tensions: Xenophobia etc
 - Family/social costs...



3. Power shifts: China



- Goals: 1. A long-term source of energy / resource security & 2. Consumer market for Chinese goods
- 'No strings attached' investment projects -> Improvement in African infrastructure
- Investment in Africa:
 - \$210m (2000)
 - \$3.2bn (2011)
 - \$60bn (2018)



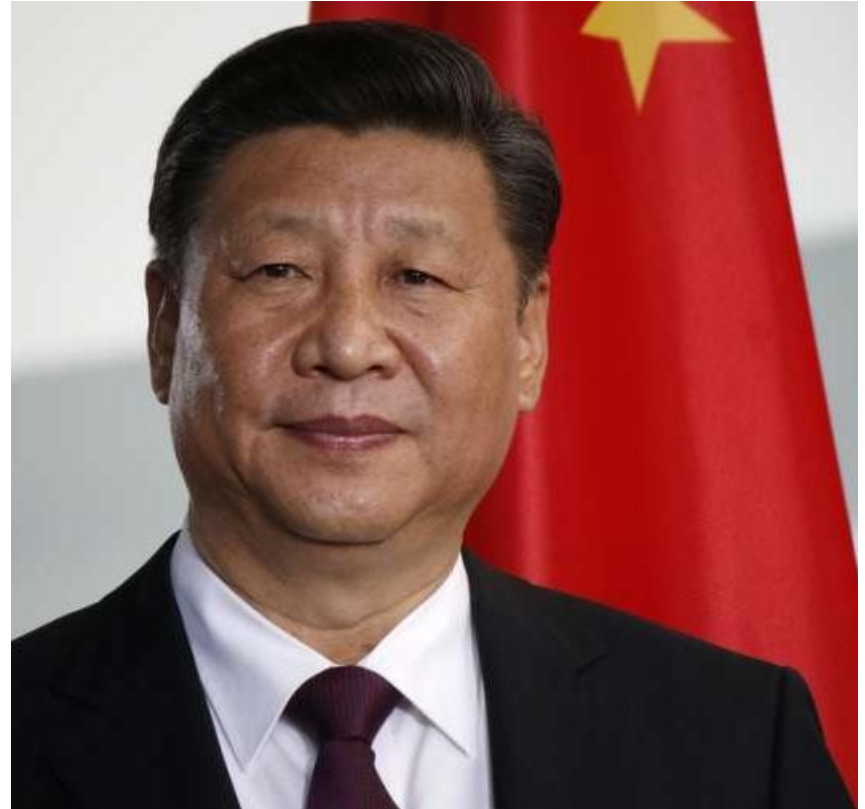
**Relations between China and Africa are testimony to the phrase
“A friend in need is a friend indeed.”**

- President Xi Jinping

3. Power shifts: China - Some concerns



- Economic imperialism? Above the law?
 - Check the fine print closely
- Influx of cheap consumer goods -> Undermine local industry
- Loss of natural resources
- Poor quality construction
- Bring in Chinese labour; Lack of assimilation; Low wages



“If it can carry goods, it can carry troops.”

- *Jonathan Hillman – Director, Reconnecting Asia*

Power shifts: Russia



- Goal: 1. Diplomatic support & resource extraction rights; 2. Arms sales
- 185% increase in Russia-Africa trade & investment ('05-'15)
- Arms sales, military services, training & support
- Major focus on energy sector, including nuclear

“What we are seeing is a Russian return that is trying to find a niche where they can be competitive. The niche they really own is arms.”

- Paul Tronski, Carnegie Endowment for International Peace

Power shifts: Russia - Some concerns



- Re-establishing 'spheres of influence'
- Mainly about arms & armaments: Stoke conflict?
- Negative human rights & security implications



“Like Beijing, Moscow’s method of trade & investment in Africa is without the conditionalities of actors like the IMF and the World Bank.”

- Theo Neethling, Professor – University of the Free State

Power shifts: India



- Goal: Long-term food & resources security; Boost trade
- Large Indian diaspora in Africa, especially East Africa
- Regions share a colonial past
- Largely a mercantilist approach
- India has many of its own issues to deal with...



“Africa has 60% of the world’s arable land, but produces just 10% of the global output. We will work with you to improve Africa’s agriculture.”

- Narendra Modi, Indian Prime Minister

Power shifts: The Indian linkage



- African exports to India growing at > 30% annually
 - Bilateral trade:
 - 2001 = \$7bn
 - 2017 = \$60bn
- Incentives for Indian companies to produce food in Africa for export back to India
- Provide affordable pharmaceuticals to the continent



Power shifts: Regional integration



The AU

- Established in 2002
- Advances in regional integration
- Promotion of industrialisation
- Intra-African trade remains low
- FDI & remittances remain the most important external financial sources
- Agenda 2063



“An integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the international arena”

- Guiding Vision, Agenda 2063

Regional integration: Many bodies...



- **SADC:** Southern African Development Community
- **CEN-SAD:** Community of Sahel-Saharan States
- **COMESA:** Common Market for Eastern & Southern Africa
- **EAC:** East African Community
- **ECCAS:** Economic Community of Central African States
- **ECOWAS:** Economic Community of West African States
- **IGAD:** Intergovernmental Authority on Development
- **UMA:** Arab Maghreb Union

Comment:

- Too many, with high overlap
- Ineffective, with poor implementation
- Visions too bold: Grandstanding?

“True integration on the African continent is hampered by the protection of vested interests – political, personal, and economic”

Power shifts: Regional integration

©

AfCFTA (African Continental Free Trade Agreement)

- 54-country trade bloc
- Aims to:
 - Connect 1.3bn people
 - Create a \$3.4tn economic bloc
 - Allow expansion of operations across countries/regions
 - Cut 90% of tariffs for goods traded within the bloc
 - Boost intra-African exports



Creating One African Market

AfCFTA is envisioned as the world's largest free trade zone since the establishment of the WTO in 1994

4. Technology: Industry 4.0 - Blessing or Curse?



Blessing:

- Disruptive technologies; New solutions; Alleviate inequality
- Africa: Unconstrained by legacy
 - **344%** mobile phone usage growth (2007 – 2016)
 - **58%** mobile broadband growth (2016)
- Potential to leapfrog infrastructure deficits
- Combination of high-tech ideas with low-wage workers in EMs
- Decoupling of growth from resource constraints

“Necessity is the mother of invention”

Technology: Industry 4.0 - Blessing or Curse?



Curse:

- Lack of:
 - Electricity
 - Appropriate policy & institutional reform
 - High-quality infrastructure; SEZs
 - Implementation support etc
- Transformation from agriculture to retail services has been growth-reducing
- Exacerbate inequality?

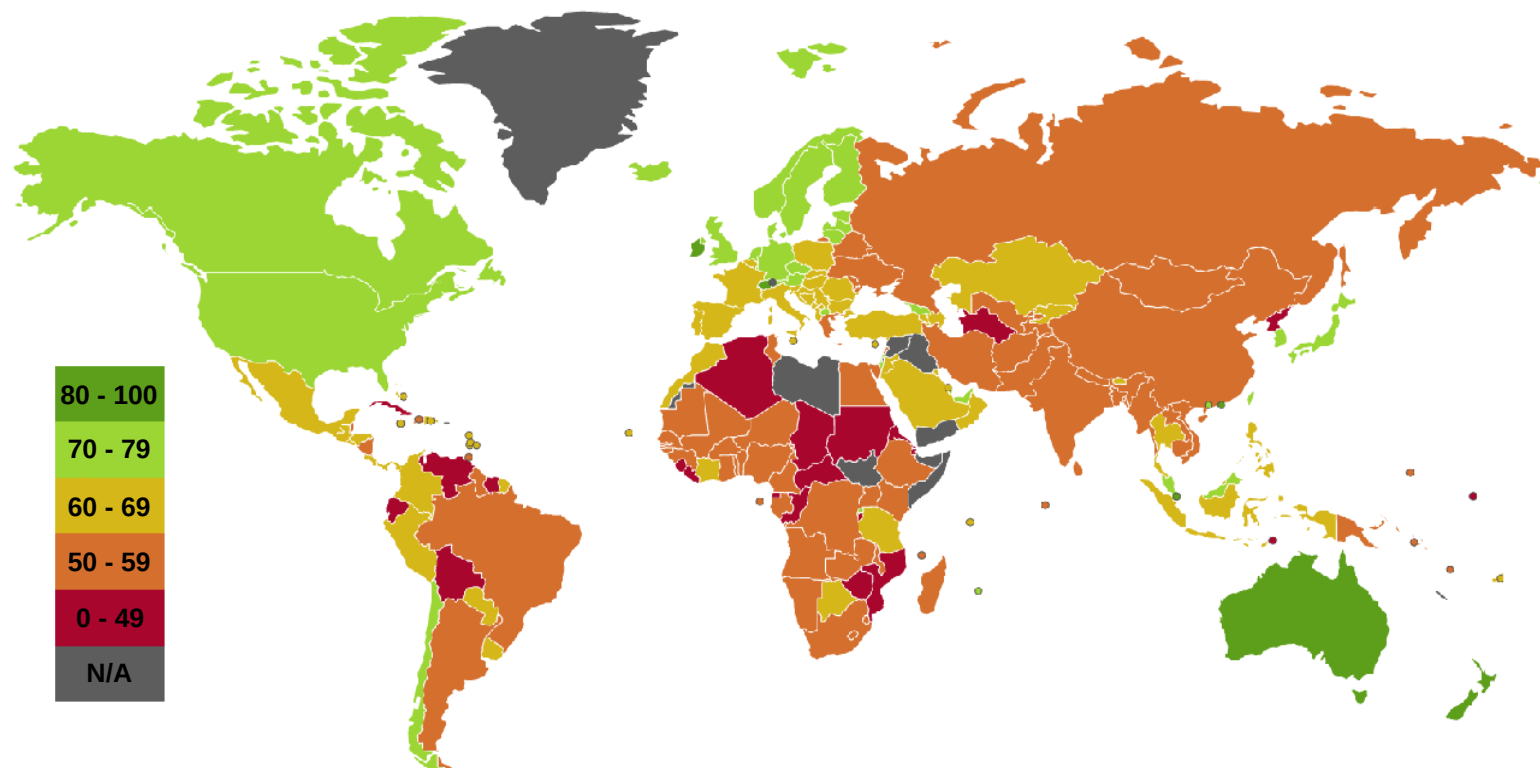


“Africa needs to see itself as the leader of the Fourth industrial revolution”
- *Nancy Kacungira, Journalist*

5. Financial Repression: Economic freedom



Economic Freedom Index (2019) – Country Scores

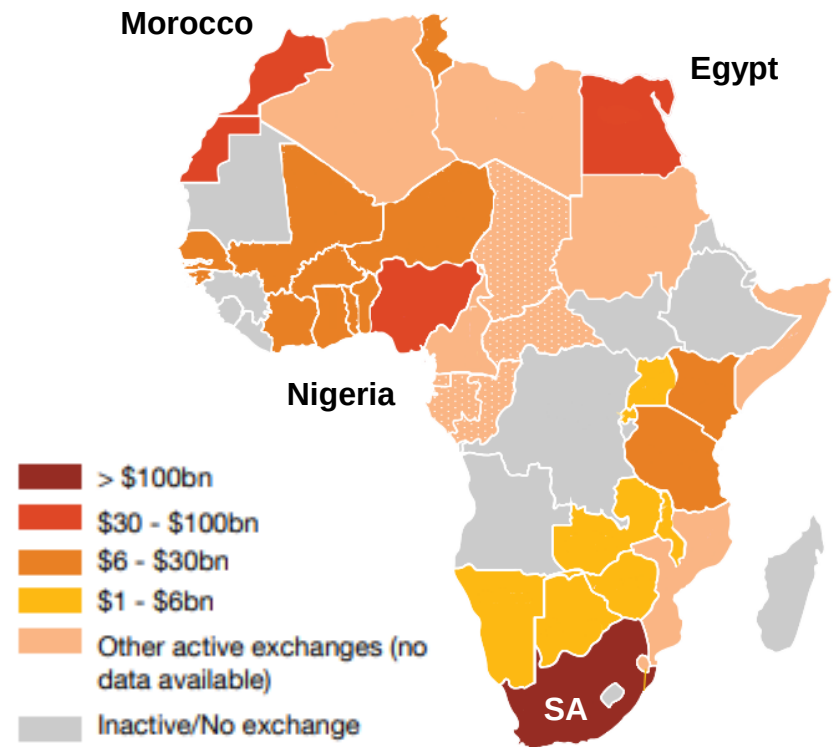


“Experts often blame lack of infrastructure, education, and limited access to technology. Overwhelmingly, however, informality is due to government policies that restrict economic liberty.”

Financial Repression: Immature markets



- Young financial markets; illiquid
- Stock exchanges not (yet) useful conduits to investment
- Jurisdictions have different offerings & regulations
- Inconsistent trading platforms / approaches
- Shortage of capital (much 'lost')



Financial Repression: The unbanked continent



- 66% of Sub-Saharan Africans do not have a bank account
 - Rise of mobile banking etc
- Different cultural approaches to money
 - Stokvels; Community banking etc
- SMMEs often lack access to the financial system
 - The key job creators
- Banks: Rely on legacy models / inadequate systems; Expensive



“The informal sector contributes 38% of sub-Saharan Africa GDP yet 51% of the continent’s formal SMMEs lack the finance necessary to grow”

- Tom Collins

Conclusion



Conclusion



Past:

- Challenging past -> Still impacting the present
- 'National' Scars still very evident

Present:

- Many are growing strongly
- Yet, many challenges remain
- Don't ignore the bottom-up!

Future:

- Megatrends: Threats but also opportunities...



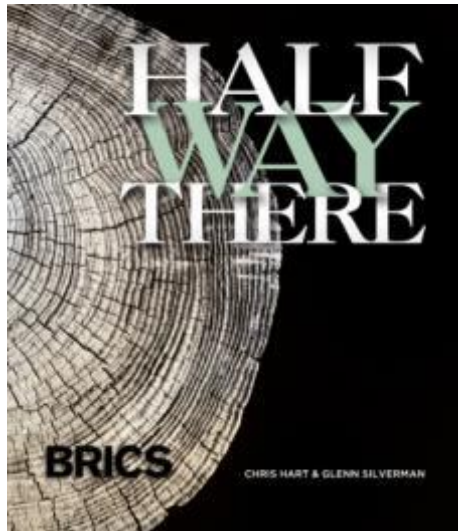
Conclusion - Specifics



- Africa has to deal (primarily) with **Growth-Jobs-Poverty**
- New approaches / thinking will be required in all areas:
 - Agriculture; Consumer; Manufacturing
 - Resources; Services
 - Technology; Telecommunication; Tourism; Trade
- Will need to utilize all of its **strengths**:
 - Age; Population; Land; Size
 - Human Capital: Entrepreneurship; Innovation; PPP etc
- And reduce its **weaknesses** too

Big challenges; Big opportunities

Conclusion: SA's Big 5



1.

Reduce unemployment

2.

Generate sustainable, inclusive and balanced growth

3.

Education is vital for reducing unemployment

4.

Rule of law, protection of institutions and property rights

5.

Focus on the private sector and reduce financial repression

Conclusion: Africa's Big 5



1.

Create jobs; Reduce unemployment

2.

Reduce corruption & Financial Repression

3.

Better leadership; Make correct policy choices

4.

Integrate regionally; Deliver on promises

5.

Build required infrastructure; Choose partners carefully



Thank you



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