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POLICY NOTE ON AFRICA

BETTING ON A GROWING MARKET: URBANISATION, DEMOGRAPHIC BOOM AND OPPORTUNITIES

EMnet Africa Meeting:
6 October 2015

INVESTMENT
ENERGY RISK MANAGEMENT
INFRASTRUCTURE INNOVATION
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Policy Note

Betting on a growing market: Urbanisation, demographic boom and opportunities in Africa

Abstract

This edition of the EMnet Africa Policy Note identifies opportunities and challenges for the private sector associated with demographic growth, urbanisation and regional integration in Africa. The analysis builds on discussions at the business meeting held on 6 October 2015 at the OECD headquarters in Paris and organised by the OECD Emerging Markets Network (EMnet).

Key messages include:

- Africa is experiencing unprecedented demographic growth that is opening up new investment opportunities in sectors outside the traditional extractive industries.
- Population growth and urbanisation offer opportunities to develop new products and services tailored to urban dwellers and the middle class.
- A growing domestic energy demand is capturing the interest of the multinational companies in Africa; however, the lack of skilled labour and the complexity of land ownership risk slowing down investments.
- Limited regional integration presents a major challenge for development and is particularly crucial to promote industrialisation and energy markets.
- Quality public policies and a strong commitment from all levels of governments are essential to develop public-private partnerships that can support infrastructure and industrial development.
- Clusters, sectoral zones and development of “corridors” can be powerful tools to promote industrialisation and regional integration.
- Local expertise is particularly important to develop productive relationships with local governments and gain a better understanding of customers and investors.

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OECD EMERGING MARKETS NETWORK

Emerging Markets Network (EMnet) is an OECD-sponsored initiative dedicated to the private sector. Managed by the OECD Development Centre, the Network fosters dialogue and analysis on emerging economies and their impact on global economic, social and environmental issues.

EMnet gathers top executives (chief executive officers, vice presidents, managing directors, chief financial officers, heads of strategy, chief economists) of multinational companies from diverse sectors, willing to engage in debates with high-level policy makers, including heads of state and ministers, and OECD experts.

EMnet events are closed to the public and media and operate under Chatham House rule to encourage open and dynamic discussions on doing business in Africa, Asia and Latin America.

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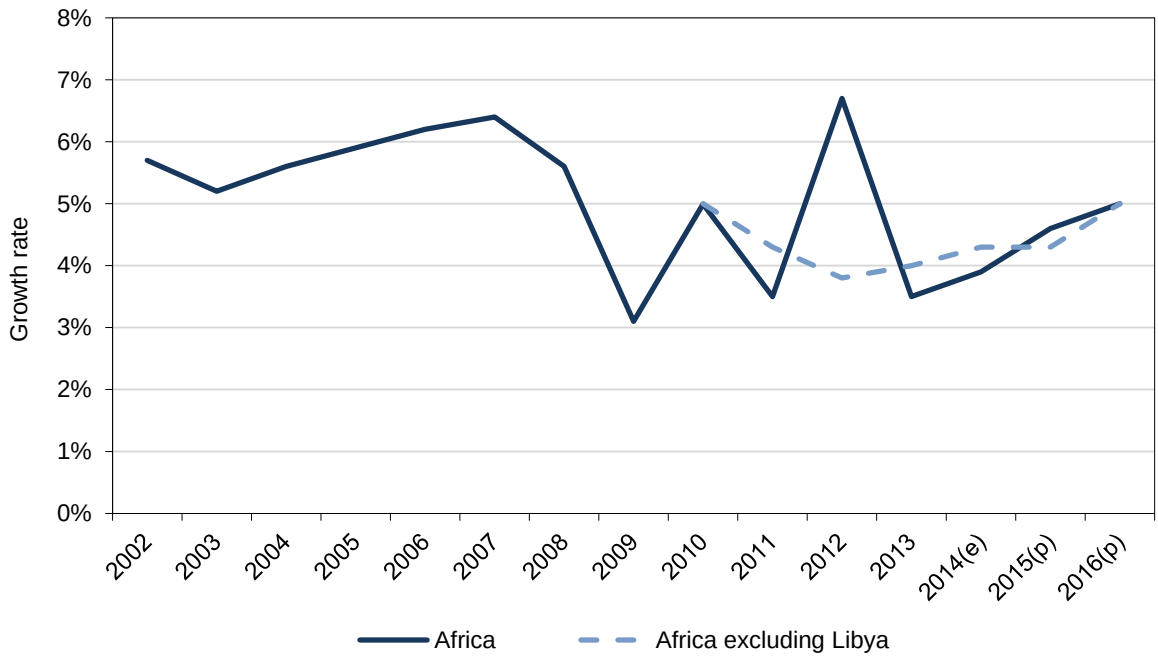
AFRICA'S BUSINESS AND ECONOMIC OVERVIEW

According to the *African Economic Outlook 2015*, gross domestic product (GDP) in Africa should increase to 4.5% in 2015 and medium-term growth prospects are more favourable than in past decades, despite some signs of volatility (Figure 1.1).

Figure 1.1. **Africa's economic growth, 2002-2016**



Note: (e) estimate; (p) projections.
Source: Statistics Department, African Development Bank, cited in AfDB/OECD/UNDP (2015), *African Economic Outlook 2015*, http://dx.doi.org/10.1787/aeo-2015-en.

Such volatility can be explained by an uncertain global economic recovery and political instability in some African countries such as Libya or South Sudan. However, significant additional risks could further threaten growth and increase volatility. Low commodity prices, declines in global demand, difficult financing conditions and electricity shortages all give reason for caution (IMF, 2015). For example, while oil-importing countries are benefiting from lower oil prices, the significant declines in commodity exports are exceeding these gains. Oil-exporting countries are particularly hard hit by the falling export incomes. Additional factors, such as the uncertainty regarding the Chinese slowdown contribute to additional potential variation in economic performance. Unless otherwise noted, data in this section are drawn from the *African Economic Outlook 2015 (*AfDB/OECD/UNDP, 2015).

A more diversified growth

African countries are moving towards more diversified economies. From the demand side, private consumption and public infrastructure investment are the main GDP contributors. The following industries were key drivers of 2014 GDP growth:

- **Agricultural sectors** recorded high production levels due to good weather.
- **Construction** increased its share of GDP through significant expansion of infrastructure and housing investment.
- **Services**, including both information and telecommunication technologies and traditional industries such as trade and real estate, performed better than expected.
- **Extractive industries** continued to drive growth despite commodity price declines.

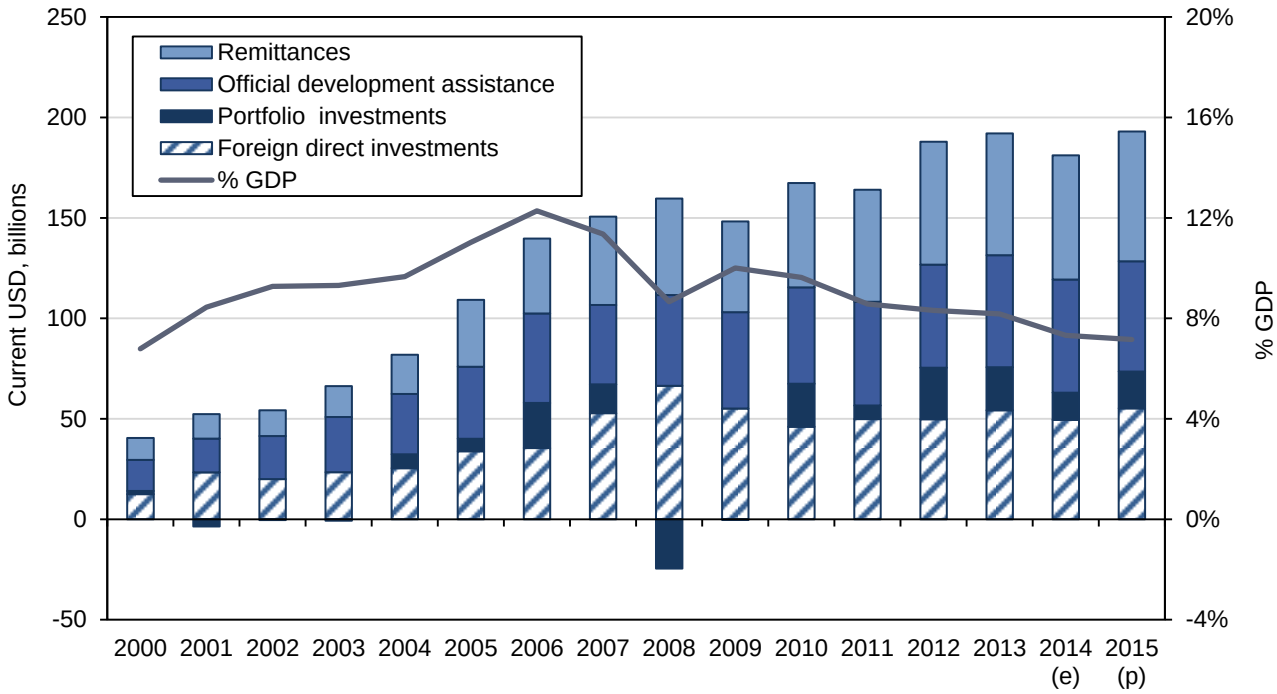
Africa's economic performance is heterogeneous and specific countries are best studied individually. However, at the regional level, sub-Saharan Africa is driving GDP growth, with the exception of South Africa. North African growth, although very sensitive to the situation in Libya, has also been performing relatively well.

The fall of oil prices had mixed effects on African economies. Oil-producing countries have shown resilience despite the fall in government revenues. However, if oil prices remain low, governments may reduce expenditures, which could negatively affect medium-term economic prospects. On the other hand, lower oil prices are having positive effects for oil importers such as Côte d'Ivoire and Ghana. Lower energy costs are boosting internal demand and increasing disposable income for households.

FDI is starting to recover

Foreign direct investment (FDI) into Africa is starting to recover from the global financial crisis, reaching an estimated USD 181 billion in 2014 (see Figure 1.2). Before the 2008 crisis, FDI was the main capital flow to the continent. Although FDI inflows declined in subsequent years, recovery is expected. By 2016, FDI should retake its position as the main source of financial flows. Official development assistance has been holding steady in recent years. However, a decline in official development assistance from USD 56.3 billion in 2014 to a projected USD 54.9 billion in 2015 is expected. Moreover, net capital inflows as a share of GDP, as shown by the line in Figure 1.2, have been steadily decreasing, indicating that Africa is relying less on external lending.

Figure 1.2. **External financial flows to Africa, 2000-15**



Note: ODA (e) estimates and (p) projections based on the real increase of Country Programmable Aid (CPA) in OECD (2014b). The forecast for remittances is based on the projected rate of growth according to the World Bank. This graph excludes loans from commercial banks, official loans and trade credits.
Source: AfDB/OECD/UNDP (2015), *African Economic Outlook 2015,* http://dx.doi.org/10.1787/aeo-2015-en.

Africa remains a frontier for foreign investment. Africa's share of global FDI was 5.7% in 2014, its highest level in ten years. Investment flows are shifting from extractive industries towards more consumer-oriented sectors. Foreign investment is also targeting large African urban centres, driven by a growing demand from the middle class. From a country perspective, Egypt, Mozambique, Morocco, South Africa, the Republic of the Congo (hereafter, Congo) and Ghana received the most FDI inflows in 2014 (AfDB/OECD/UNDP, 2015). Main sectors for investment are highlighted in Table 4.1 below.

Table 1.1.Top destinations in Africa of foreign direct investment, by value of investment (2014)

Country	Value (USD billions)	Main Sectors
Egypt	5.5	Oil, gas, automotive
Mozambique	4.9	Infrastructure, gas
Morocco	4.7	Manufacturing, real estate, food processing
South Africa	4.2	Infrastructure
Congo	2.8	Oil
Ghana	2.7	Information and Communication Technologies (ICT), retail

Source: AfDB/OECD/UNDP (2015), *African Economic Outlook 2015,* http://dx.doi.org/10.1787/aeo-2015-en.

Reflecting the shift towards consumer goods, Kenya, the Republic of Tanzania, Uganda and Zambia are also attracting increased investor interest. At the regional level, East Africa's overall FDI grew by 9%, while West Africa's suffered a drop of 20% caused by political and security instability in Nigeria and the Ebola outbreak. Although Southern Africa FDI declined by 20%, this reflects a return to normal levels after exceptionally high 2013 inflows. FDI into North and Central Africa decreased marginally (AfDB/OECD/UNDP, 2015).

Box 1.1. Banking industry driving intra-African FDI

Intra-African FDI flows have been on the rise since 2010, and African commercial banks are driving the investment trends with extensive regional expansion.

Ecobank, a commercial bank headquartered in Lomé, Togo, was initiated by the Federation of West African Chambers of Commerce & Industry with the support of the Economic Community of West African States (ECOWAS) in 1984 and aims to become the leading pan-African bank. Since 2007, it has started expanding outside the ECOWAS region, reaching a total of 36 African countries, more than any other bank in the world. Currently, the group has over 9.6 million customers, 1 200 branches and is the largest financial-sector employer in Central Africa.

FirstRand, a South African-based bank, and the fourth largest bank in Africa according to total assets, is also expanding its operations beyond the domestic market. The bank seeks to strengthen its position as a South African player while expanding operations in key African markets, particularly in Southern and East Africa.

Standard Bank, another South African bank, is expanding its operations to other African regions. In 2013, the bank opened a representative office in Abidjan, Côte d'Ivoire. Standard Bank sees the West African region as a key growth opportunity. In 2014, it opened offices in Benin, Mali, Senegal, Niger, Togo and Guinea Bissau as part of its West African growth strategy. In 2015, the group consolidated its East African presence by opening a representative office in Addis Ababa, Ethiopia. Standard Bank, Africa's largest bank by assets, now has a continent-wide presence in 20 African countries. Further expansion is planned for operations in Gabon, Cameroon, the Central African Republic, Chad, Congo and Equatorial Guinea.

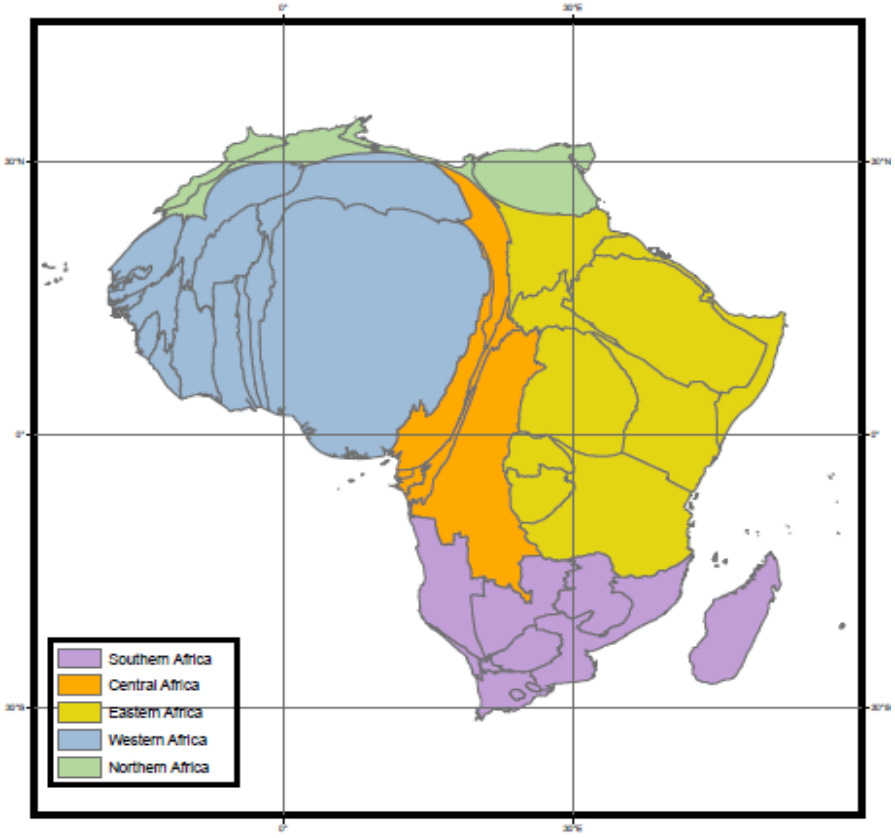
Sources: Standard Bank (2015a), "Standard Bank Group continues steady growth", www.standardbank.com/pages/StandardBankGroup/web/newsArticle/2015/NewsArticle-5Mar2015.html; Standard Bank (2015b), "Standard Bank consolidates its East African presence", www.standardbank.com/standardbank/About-Us/Media-releases/News/Standard-Bank-consolidates-its-East-African-presence-with-official-opening-of-Ethiopian-representative-office; Standard Bank (2014), "Greenfields investments to stimulate infrastructure capacity", www.thenigerianvoice.com/news/145164/1/greenfields-investments-to-stimulate-infrastructur.html; Standard Bank (2013), "Standard Bank Group expands", www.stanbicibtcbank.com/standimg/Mauritius/fileDownload/StandardBankExpandsItsAfricaFootprint.pdf; The Africa Report (2013), "Top 200 Banks 2013", www.theafricareport.com/Top-200-Banks/top-200-banks-2013.html; Ecobank (n.d.), About Us, www.ecobank.com/group/aboutus.aspx.

Prospects for African FDI outflows are optimistic. Intra-African FDI increased from 11% of total FDI during 2003-08 to 19% during 2009-2014 (fDiMarkets.com, n.d.). Africa's FDI outflows rose from USD 8.1 billion in 2011-2012 to USD 11.4 billion in 2013-2014. Outflows should increase further in 2016, but the fall of commodity prices and political instability may put downward pressure on investment.

DEMOGRAPHIC BOOM: OPPORTUNITIES AND CHALLENGES FOR BUSINESSES

Africa is experiencing unprecedented demographic growth. By 2050, the continent's population will have increased to over 2 billion, accounting for 25% of the world's population, compared to 15% today. In addition, the continent should have more cities of 1 million inhabitants than India or the United States by 2050 (AfDB/OECD/UNDP, 2015). At the regional level, population growth will be uneven amongst African regions, with East and West Africa experiencing most growth (see Figures 1.3 and 1.4). Rural communities will also continue to grow but at a slower rate than cities. Until the mid-2030s, the majority of Africa's population will likely live in rural areas (AfDB/OECD/UNDP, 2015).

Figure 1.3. **Africa's weighted population, 2050**

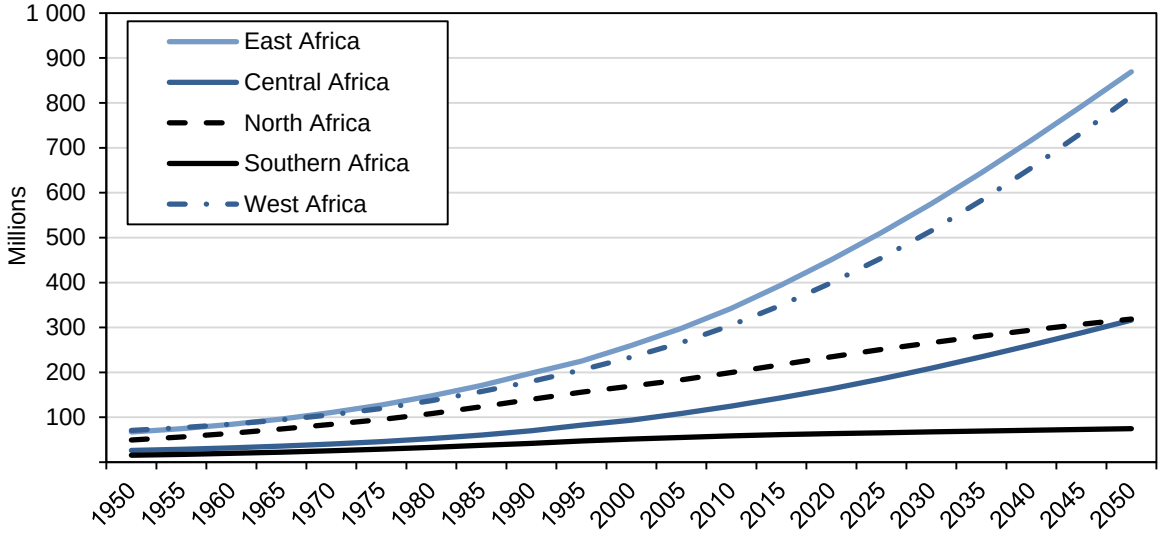


Sources: UNDESA (2012), *World Population Prospects*, http://esa.un.org/unpd/wpp/Publications/Files/WPP2012_Volume-II-Demographic-Profiles.pdf and CIRAD Cartography Unit, cited in AfDB/OECD/UNDP (2015), *African Economic Outlook 2015*, http://dx.doi.org/10.1787/aeo-2015-en.

A new middle class emerges

Africa's middle class tripled over the last 30 years to reach 355 million in 2011, representing 34.3% of the population (AfDB, 2011). The African middle class is expected to grow to 1.1 billion, representing around 42% of the total population by 2060 (AfDB, 2011). The increase in the middle class may shift foreign direct investment further from traditional sectors such as extractive industries to the retail sector, notably consumer goods and services (AfDB/OECD/UNDP, 2015).

Figure 1.4. **Population growth in Africa, 1950-2050**



Note: Medium fertility scenario
Source: UNDESA (2012), *World Population Prospects*, http://esa.un.org/unpd/wpp/Publications/Files/WPP2012_Volume-II-Demographic-Profiles.pdf cited in AfDB/OECD/UNDP (2015), *African Economic Outlook 2015*, http://dx.doi.org/10.1787/aeo-2015-en.

In line with the demographic changes, Africa's workforce is expected to increase by 910 million people between 2010 and 2050, 90% of whom will be in sub-Saharan Africa and the other 10% in North Africa. This increase represents two-thirds of the expected total increase in the workforce worldwide (AfDB/OECD/UNDP, 2015). The demographic shift in Africa will have consequences in many areas, including energy infrastructure, urbanisation, industrialisation and regional integration, and risk management.

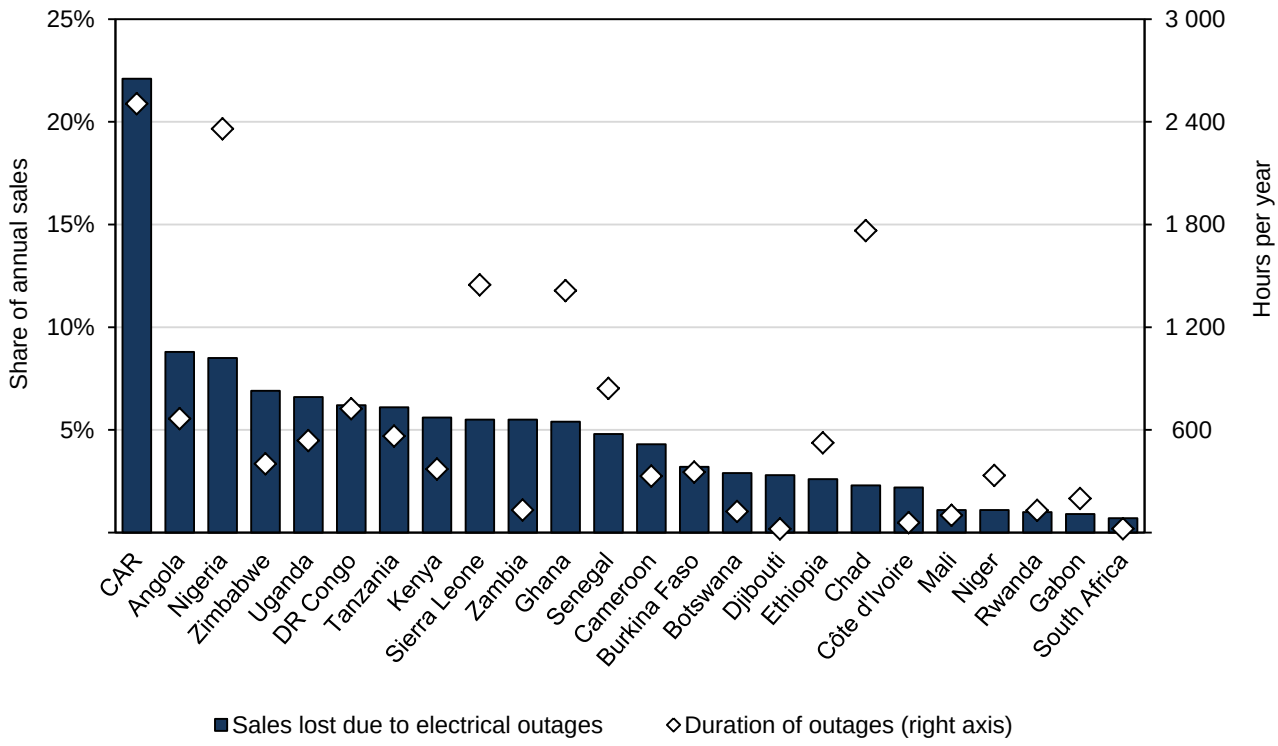
A growing energy demand

Although Africa has almost 15% of the world population, it only represents 4% of global energy demand (IEA, 2014). In addition, as highlighted in the IEA's *Africa Energy Outlook*, more than 620 million people in sub-Saharan Africa lack access to electricity, more than in any other region of the world. Sub-Saharan Africa is also the only region where the number of people living without electricity is actually increasing, as efforts to improve access are outpaced by population growth (IEA, 2014).

Demand in Africa is showing an upward trend, with a recent report suggesting it will grow fourfold by 2050, fuelled by population growth and the rise of the middle class (Castellano et al., 2015). Primary energy demand in sub-Saharan Africa increased by around 45% from 2000-12, reflecting around half of the GDP growth over the same period (AfDB/OECD/UNDP, 2015). A 1% increase in GDP therefore has been associated with a 0.5% increase in primary energy demand. In other developing countries, the relationship between energy consumption and GDP growth is stronger, highlighting the constraints in African energy supply (AfDB/OECD/UNDP, 2015). As shown in Figure 1.5, significant challenges exist with respect to electricity quality, as blackouts are common throughout the region. The pace at which energy infrastructure has been deteriorating has slowed, and rapid population growth can conceal the efforts and results taking place (IEA, 2015).

Infrastructure investments are necessary to ensure adequate energy provision, sustain long-term growth and meet the growing demand. Strong political commitment helped to increase energy access through grid and mini-grid systems in countries such as Ghana, Mali, Mozambique, Rwanda and Tanzania (AfDB/OECD/UNDP, 2015). For instance, Ghana will increase its capacity by 10 MW to meet the growing demand of a new middle class. In sub-Saharan Africa, the electricity access rate has increased from 23% in 2000 to 32% in 2012 and 145 million persons have gained access to electricity since 2000 (AfDB/OECD/UNDP, 2015).

Figure 1.5. **Duration of electrical outages and impact on business sales in selected countries**



Note: CAR = Central African Republic
Source: IEA (2014), *Africa Energy Outlook,* www.iea.org/publications/freepublications/publication/weo-2014-special-report-africa-energy-outlook.html.

Rapid growth for African cities

In Africa, urbanisation growth is amongst the highest of the world, but significant disparities exist. By 2060, Africa will be an urban continent with more than 1.3 billion people living in cities (AfDB, 2011). While Southern and North Africa are the most urbanised sub-regions with more than 50% of their population residing in urban agglomerations, East and Central Africa have on average less than 25% of their population in large cities.

With a growing middle class, African cities represent an untapped consumer market for investors. Disposable income is expected to increase by around 5.6% annually until 2030 and aggregate spending power is expected to increase from USD 420 billion in 2013 to 1 trillion in 2030 (Oxford Economics, 2014).

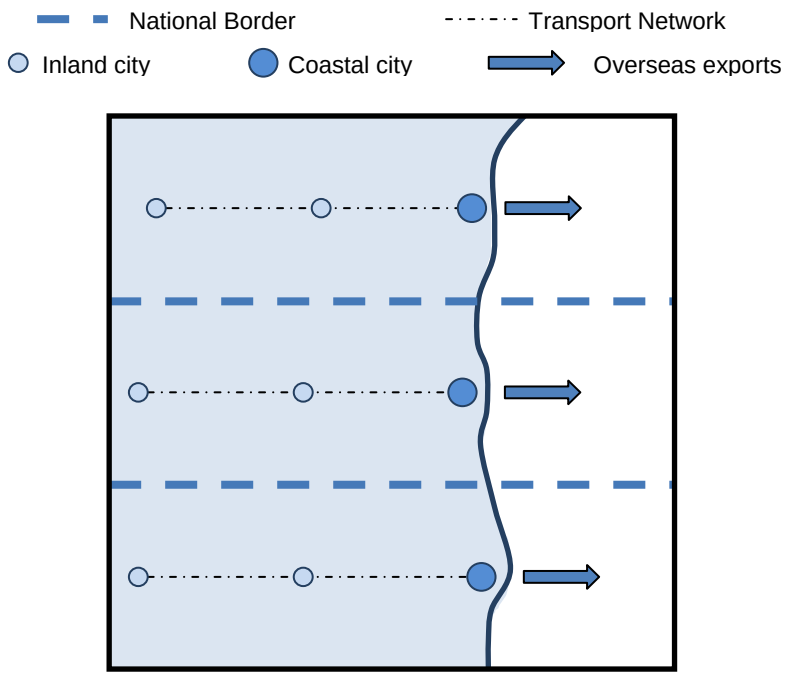
Improving livelihoods in African cities will require significant public and private investments in basic infrastructure and services. Confronted with fast demographic growth and weak urban planning, inclusive urbanisation strategies must take into account issues of job creation, access to quality services, mitigation of environmental damage and slum reduction (AfDB/OECD/UNDP, 2015).

Population growth, industrialisation and regional integration

Population growth will also have an effect on industrialisation. African industrialisation faces many challenges such as the quality of transport or the regulatory environment. Because other emerging economies outside of Africa are moving up the income ladder, increasing production costs and wages, some offshoring of production is now shifting from Asia into Africa. This has the potential to generate employment for the millions that will join Africa's workforce in the future (AfDB/OECD/UNDP, 2015).

One of the main barriers to industrialisation is the lack of regional integration amongst countries. The colonial period left a mark on the trading infrastructure. As shown in Figure 1.6, past territorial development focused on exploiting natural resources and shipping out commodities. This resulted in "comb shaped" development, where each territory developed transport networks to serve international ports, without developing connections between inland cities and port cities in other countries (AfDB/OECD/UNDP, 2015). Intra-African trade represents only 12% of the continent's trade, whereas intra-European is over 60% (The Economist, 2013; Eurostat, 2014). In Africa, there are often "thick" borders between geographically close countries. A stark example is that of Kinshasa, Democratic Republic of the Congo, and Brazzaville, Congo. Despite collectively forming Africa's third largest metropolis, only 1.1% of the Congo's imports come from across the border (Brenton and Isik, 2012).

Figure 1.6. **Africa's comb-shaped spatial organisation**



Source: AfDB/OECD/UNDP (2015), *African Economic Outlook 2015*, http://dx.doi.org/10.1787/aeo-2015-en.

Regional integration can indeed enable the clustering of economic activities across attractive economic zones while enabling infrastructure development in new locations and along transport corridors. Trade-facilitation reforms are an important lever of regional integration. They can help make borders ''thinner'' and thus lower transaction costs. Furthermore, the establishment of a Free Trade Area could constitute a milestone for Africa's integration agenda. In January 2015, the African Union Assembly launched the Continental Free Trade Area (CFTA) negotiations. The African Union expects countries to reach a continental trade agreement by 2017 (AU, 2015). In addition, the June 2015 launch of the COMESA-EAC-SADC Tripartite Free Trade Area is set to create an integrated market with a combined population of almost 600 million people and a total GDP of about USD 1 trillion. [i]

Risk management

Identifying and managing risks associated with environmental, social and human-rights issues are pivotal to developing sustainable investment plans. Risks are not only financial, but also often social, environmental, geopolitical or technological in nature. The profitability of foreign companies and their long-term investments are subject to external and domestic risks including declining commodity prices, the emerging economy slowdown, climate-change impacts, pandemics and social or political instability. For instance, public protests in many African countries remain high, driven mainly by employment-related claims for wage increases, better working conditions and improved public services (AfDB/OECD/UNDP, 2015).

Companies engage in risk mitigation by involving stakeholders, such as local communities, in their planning and decision making. A focus on shared value can thus help mitigate risk through a proactive and inclusive approach (OECD, 2015).

PUBLIC POLICY TO ACCOMPANY DEMOGRAPHIC GROWTH

Demographic growth opens up opportunities for development if accompanied by appropriate public policies. A "demographic dividend" refers to increased economic growth that can result from a decline in the mortality and fertility rates and the subsequent change in the age structure of the population. The number of active people supporting inactive people increases due to lower birth rates, which frees up resources to improve living conditions. With fewer births each year, the young dependent population in a country grows smaller than the working-age population. With fewer people to support, a country has a window of opportunity for improving economic growth if accompanied by the right policies and supportive investments.

Building resilient energy infrastructure

African governments are making efforts to promote electrification, but they are being outpaced by population growth. The rapid increase in energy demand has engendered energy crises affecting several African countries such as Ghana or South Africa.

Ghana is a clear example of an economy where energy supply has not been able to catch up with energy demand fuelled by population growth. The government is making efforts to increase the country's energy capabilities by means of a public-private partnership (PPP) with several multinational enterprises to profit from a recently discovered offshore gas reserve. The initial plan is to use the gas for domestic consumption and later, once demand is met, export to neighbouring countries. In addition, the Ghanaian government plans to liberalise the energy market to improve competitiveness.

Redesigning African cities

In the past, African governments did not prioritise urban development (ECOSOC, 2014). Colonial planning systems and practices reinforced population exclusion, and limited infrastructure investment and public-service provision. In addition, scarce resources, limited capacities and administrative barriers have often raised additional challenges for urban development (ECOSOC, 2014). Unlike in other regions, urbanisation in Africa has not driven industrialisation (AfDB/OECD/UNDP, 2015). Rather than obtaining formal employment, most rural migrants work in the urban informal sector (AfDB/OECD/UNDP, 2015).

Cities and local authorities are starting actively to develop urban development plans to cope with population increase. In March 2015, Egypt announced plans to build a new capital to reduce overcrowding pressure on Cairo. Given the challenging economic and social situation of the country, however, investors are cautious (The Capital Cairo, 2015).

The government of Kenya has introduced new urban-development plans for Nairobi, including the Nairobi Integrated Urban Development Master Plan (NIUPLAN) and the Nairobi Metro 2030. The goal is to transform Nairobi into an African metropolis by improving its competitiveness and converting it into a regional hub for business, trade and finance. Furthermore, it also aims to tackle some of the city's social challenges by improving municipal infrastructure, transport and access to utilities. Nairobi is also developing the Konza Techno City a technology hub aiming to develop Kenya's ICT sector further (Konza Techno City Kenya, n.d.).

Establishing manufacturing hubs

Industrialisation and regional integration in Africa is inhibited by significant infrastructure gaps. Despite this, some countries are making progress. Natural-resource endowments and relatively low labour costs can position Africa as a potential manufacturing hub, especially given the rapid wage increases Asian manufacturers are experiencing.

The government of Ghana, for example, is committed to domestic industrialisation and regional integration in the ECOWAS region. Companies that export more than 70% of their production can benefit from a free-trade-zone scheme (Ghana Free Zones Board, www.gfzb.com.gh). The government is also pursuing a partnership with Côte d'Ivoire to allow Ghanaian manufacturers to import input goods tax-free.

Promoting land-transport trade is also a priority for Ghanaian policy makers. The government is working to reduce the number of checkpoints inside the country and engaging with neighbouring countries such as Togo, Benin and Côte d'Ivoire with a view to having them reduce checkpoints to a maximum of three. It is also in the process of building its part of the Lagos-Abidjan transport corridor, which will make shipping goods in the region faster and cheaper.[ii]

Despite foreign investment restrictions in sectors like telecommunications and banking, foreign investment is taking off in Ethiopia. Through its five-year Growth and Transformation Plan, Ethiopia aims to achieve growth rates between 11% and 15%. The government, pressured by the lack of commodities in the country, is pushing for industrialisation in key sectors where they have a comparative advantage, such as flowers or leather. As a result, foreign investors are becoming more interested and, FDI reached its historic maximum of USD 1.5 billion in 2015 (Manson, 2015).

Many African countries are eager to start an industrialisation process but fear that newly created wealth will leave the country. Some governments are promoting policies that encourage foreign investors to contribute to local economic development. For instance, when Walmart

entered the East African market, it was required to invest USD 10 million in developing local suppliers (Massmart, 2015).

Box 1.2. International manufacturing in Africa

A quiet boom in manufacturing in Africa is already taking place. Although commodity exports, agriculture and services still account for the majority of economic activity in African countries, new manufacturing industries are emerging across the continent, as highlighted below.

Huanjian Group, one of the largest Chinese shoe manufacturers, recently announced its commitment to invest in Ethiopia and transform the country into a global shoe industry supplying Europe, Africa and North America. The company, jointly with the China-Africa Development Fund, plans to invest more than USD 2 billion and expects to create around 30 000 jobs in Addis Ababa by 2022. The company currently owns a factory in the country and employs over 4 000 locals. Part of the company's strategy is to help develop local manufacturers and establish an East African supply chain. The group wants African operations to be managed by local employees and they have already started training staff for managerial roles.

H&M and Primark, two of the largest fashion brands in the world, recently have started sourcing garments from Ethiopia. Garments now dominate Ethiopia's exports to the EU-15 with T-shirts and trousers, amounting to nearly 80% of the country's exports.[iii] Despite these large numbers, Ethiopia only accounts for 0.01% of the global apparel exports, but shows huge potential to become a major player in the industry. Moreover, the country could become a global source of raw materials as it has millions of hectares of land with a climate suitable for cotton.

General Electric (GE) recently invested over USD 250 million in a manufacturing plant in Calabar, Nigeria. The new facility will serve as a hub for the company's oil and gas operations in the region. The plant will include training facilities that will enable knowledge transfer and career advancement for local employees through local and international training programmes.

Sources: All Africa (2014), "GE Names Julius Berger", http://allafrica.com/stories/201412041626.html; Lei (2015), "Rediscovering Africa", http://english.cntv.cn/2015/11/12/VIDE1447325907987305.shtml; General Electric (n.d.), "Nigeria", www.ge.com/africa/company/nigeria; Berg, Hedrich and Russo (2015), "East Africa: The Next Hub for Apparel Sourcing?", www.mckinsey.com/insights/consumer_and_retail/east_africa_the_next_hub_for_apparel_sourcing.

PRIVATE SECTOR INSIGHTS ON THE DEMOGRAPHIC BOOM IN AFRICA

The private sector is essential for Africa's economic development. The new Sustainable Development Goals (SDGs) recognise the role of the private sector as a key partner to achieve sustainable economic growth. Business-led initiatives, skill transfers and innovation, for example, will be essential to help African countries benefit from the demographic boom by providing more and better quality jobs, strengthening skills and enabling productivity gains. This section includes the insights drawn during the EMnet Africa meeting.

Strong public-private partnerships are essential to meet the growing energy demand

The long-term nature of energy infrastructure projects makes a stable macroeconomic environment essential. There is plenty of available capital to fund projects with risk-adjusted returns. The key to unlock financial flows is to build solid PPPs between African governments and multinational companies. Eni's Offshore Cape Three Points plant in Ghana has been noted as an example of a strong PPP. The plant will provide domestic gas supply to Ghana's thermal power plants for more than 15 years and contribute to government revenue through royalties and taxes on oil production. Long-term power-purchase agreements with the government and a USD 700 million World Bank guarantee were key factors that contributed to the agreement (World Bank, 2015).

Amongst the bottlenecks for energy-infrastructure projects identified by participants were the lack of skills in the local labour force and the complexity of land ownership. Energy infrastructure projects require high-skilled labour that can be difficult to source locally. A common short-term solution is to hire expatriates with the needed skills. A more long-term option is to set up partnerships with local universities to train and develop local youth with the right skills, which can contribute to local development and technology transfers. Land ownership is another bottleneck for energy projects in Africa. Multiple local tribal chiefs often own land and buying it can result in long and complex processes. African governments should set up schemes that facilitate land transactions.

Participants also emphasised the importance of regional integration for energy security. Facilitating exports in the regions and the institution of common markets will make Africa more attractive to investors and result in higher FDI inflows. Customs duties and other non-tariff barriers are preventing African countries from maximising their comparative advantages in natural resources.

African cities can leapfrog to become more sustainable and inclusive

The private sector believes in the growing importance of the African middle class and is willing to invest. This commitment needs to go hand-in-hand with appropriate urban development policies. Companies are starting to target urban low-income groups, usually employed in the informal sector. Participants identified business opportunities such as low-cost mobile banking and healthcare solutions as a first step towards more inclusive cities.

Above all, African cities have the opportunity to leapfrog into sustainable and inclusive cities. Local authorities should tap into the expertise of multinational companies for urban development plans. Businesses are eager to take an active role in this transformation and expressed their interest in constituting partnerships between companies and local authorities to design and implement these projects.

Strong governments are needed to promote industrialisation

Having a stable macroeconomic environment is crucial to encouraging financial flows into a country. In particular, governments should ensure stable exchange rates to minimise risk for foreign investors. Strong governments can facilitate the industrialisation process of a country. Ethiopia was mentioned as a country starting to show signs of industrialisation. For example, despite being one of the poorest countries in Africa with an agriculture-based economy, Ethiopia expects to receive a historically high USD 1.5 billion in FDI in 2015 (Manson, 2015). Investors are attracted to the country both for its commitment to diversify the economy by developing key

strategic sectors and its exchange-rate stability. In addition, Ethiopia's 2014 issuance of a USD 1 billion Eurobond was strongly oversubscribed, highlighting investor interest and confidence. The proceeds will finance three infrastructure projects, including a sugarcane plantation, a 6 000 MW hydropower dam on a tributary of the Nile and the country's railway network (Brand, Wallace and Pronina, 2014).

A "one country at a time" incremental approach for regional integration

There are several multilateral regional integration plans in Africa, yet a pan-African common market is still not a reality. Participants believed that bilateral trade agreements should be prioritised as part of a "one country at a time" approach. Supra-national trade agreements will come later. Creating clusters, sectoral zones and development "corridors" can be powerful tools to pave the way to better integration.

Not all stakeholders will benefit from regional integration, however. Countries that already have significant exporting capabilities are interested in protecting their regional dominance. Tensions exist between better regional integration and productivity increases. For instance, Kenya is interested is regulating the use of genetically modified organisms as a way to increase productivity through higher production, but this decision could threaten trade agreements with neighbouring regions that do not allow genetically modified crops.

Minimise reputational risk by applying "Know Your Customer" and "Know Your Investor" principles

According to EMnet Africa participants, "Know Your Customer" and "Know Your Investor" are the best tools to mitigate reputational risk. Businesses need local expertise, acquired by hiring locally or having a historic presence in the region, to assess their customers and investors. Cultural factors also will play a role. Participants highlighted that relying on "foreign notions" of certain rules or relationships carries the risk of leading to unexpected outcomes and reputational damage. It was noted, for example, that companies often underestimate the complexity of developing relationships with local governments, which is an area where understanding local cultural practices is particularly important.

Participants also believed that stigmatising a region as too risky is counterproductive. The Harkin-Engel Protocol, established to remove child labour from cocoa plantations in Ghana and Côte d'Ivoire, is a useful risk-management tool for companies to monitor compliance in their supply chain. Responsibly investing in a complex environment – such as cocoa plantations, which could have child-labour risks – is a way to promote development and reduce future risks.

THE WAY FORWARD FROM A BUSINESS PERSPECTIVE

Multinational companies have developed considerable knowledge on doing business in Africa. Before investing they do extensive due diligence on the investment climate and regulatory frameworks in target countries. Participants noted, however, that African governments could do more to promote investment opportunities. Tax incentives are simply not enough, and other factors such as legal frameworks for investment, governance and administration of incentives, access to land, environmental endowments and quality of infrastructures are considered particularly important.

EMnet Africa highlights three main recommendations. First, solid PPPs are necessary to develop African industry. Successful PPPs not only benefit companies and governments, but also strengthen the overall economy by sending the right signals to international markets. Second, participants emphasised the need for strong governments capable of pushing through necessary development policies. Ethiopia, in particular, is pursuing rigorous economic reform. Finally, participants encouraged regional integration through a realistic and "one at a time" strategy, i.e. by first reaching bilateral trade agreements that will then facilitate broader regional agreements.

Notes

i. The Common Market for Eastern and Southern Africa (COMESA), with 19 member states, is the largest regional economic organisation in Africa. The East African Community (EAC) is the regional intergovernmental organisation of Burundi, Kenya, Rwanda, Tanzania and Uganda. The Southern African Development Community (SADC) has a membership of 15 states, namely: Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

ii. The Abidjan-Lagos transport corridor is the major east-west transport corridor in West Africa, connecting the capital cities of five countries (Cote d'Ivoire, Ghana, Togo, Benin and Nigeria).

iii. The EU-15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

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