

# On the cusp of a boom

Africa has long been viewed as a continent of untapped potential. Now favorable demographic and economic trends are attracting an influx of foreign investment, pointing toward a new era in its development, say **Jason Kerr** and **Rebecca Campbell**, partners at White & Case.



Formerly branded “the hopeless continent” by *The Economist* just over a decade ago, Africa has so belied downbeat projections that in March 2013 the same magazine published a special report with the opposite sentiment, titled “Africa rising.”

The continent grew on average 5.5 percent a year over the past decade, and GDP is expected to rise by an average of 6 percent a year in the next decade, according to the United Nations Conference on Trade and Development (UNCTAD). Some economists are even more positive about Africa’s prospects. Charles Robertson, global chief economist at Renaissance Capital, for example, forecasts that its economy will grow from US\$2 trillion today to US\$29 trillion by 2050.

Concerted efforts by African and international leaders have created this brighter outlook. Overly debt-laden nations have seen their burdens reduced as a result of improved relations with the international community. Africa’s shift toward middle-income status and urbanization has come at the same time as increasing investment in education, healthcare and infrastructure.

Foreign direct investment (FDI) is playing a major role, too.

UNCTAD reports that FDI went from US\$15 billion in 2002 to US\$37 billion in 2006 and US\$46 billion in 2012, bucking the global downward trend.

Still though, the perception among many companies and investors that Africa is an extremely risky place to do business is a key challenge. While it can be true in some cases, it is not so in others. A common error by investors is to consider the continent of Africa a whole rather than a collection of distinct and highly varied states. In reality, some regions and distinct sectors (e.g., mining, oil & gas, power, infrastructure) in Africa are considerably less risky to invest in than certain emerging markets.

A recent report by Foreign Policy, a US think tank, ranked three African countries—Botswana, Rwanda and Ghana—in the top ten best investment destinations globally. These countries also all rank relatively high in the World Bank and International Finance Corporation’s *Ease of Doing Business Index*.

Speaking at White & Case’s recent seminar on Financing in Africa, Cherie Blair pointed out that, according to Transparency International’s *Corruption Perception Index*, which ranks countries from those perceived

as the least corrupt to those perceived as the most corrupt: “Eight countries in Africa rank better than Brazil, 15 countries rank better than India and 32 countries rank better than Russia.” Despite acknowledging that corruption is a major issue for Africa, Blair pointed out: “We need to keep a sense of perspective.”

One factor that mitigates the risk of investing in Africa is the similarity of many African legal structures to the dominant ones in the West. This similarity is sometimes forgotten. Tsatsu Tsikata, former chairman and chief executive of Ghana National Petroleum Corporation, raised this point at the White & Case seminar by asking: “Why would anyone say that the risks related to the legal system of dealing with a country with a common law tradition are any more complicated than dealing, for example, with China?” In fact, when things do go wrong in negotiations, legal processes can be overly demanding in their complexity and expense for



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African governments and local investors, while foreign investors are often well acquainted with the institutions in place.

As investment in Africa continues to grow, one important area for governments will be ensuring legal mechanisms are as fair and transparent as possible. Blair sees arbitration centers in Africa as a step that might help achieve this. By making it easier for African lawyers and governments to participate in arbitration, they may improve the perception of such processes in the eyes of African leaders.

In recent years there has been rising interest in Africa among emerging markets, including those located in Africa itself. Historically, investment in the region has been led by the developed world, with the United States, Britain and France the top three investors in terms of the number of new FDI projects between 2007 and 2012. Increasingly though, countries in emerging markets are recognizing the attractiveness of doing business on the continent. Between 2007 and 2012 investment in Africa by emerging markets grew at a compound annual growth rate (CAGR) of 20.7 percent, according to fDi Markets.

Chinese investment in Africa has grown at a rapid pace, particularly in the mining sector. The country’s investments in African mining totaled US\$15.6 billion in 2011, up tenfold on the previous year,

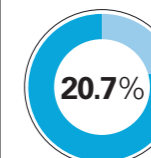
according to the China Mining Association. Some commentators have implied that China’s activities in Africa mean it is becoming a new colonial power on the continent. Speaking at the White & Case seminar, former Nigerian President Olusegun Obasanjo, in response to such claims, stated that China is not seen as a colonial master of either the United States or Australia, despite its extensive activity in these nations. China, the world’s largest owner of US government debt, has nearly US\$1.3 trillion of US treasury bills. In addition, Chinese investment makes up 40 percent of total FDI in Australia, a figure no country in Africa comes close to matching.

Obasanjo emphasizing the importance of creating an environment in Africa in which it is easy for foreign investors, wherever they may come from, to do business. The important challenge for governments now, he says, is to “tie money down.” By this he means ensuring Africa benefits from its natural resources wealth by building up industry around it, such as downstream processing and manufacturing as well as local workforces engaged in upstream projects.

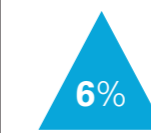
Tsikata, founder of Ghana National Petroleum Corporation, believes that it is the responsibility of local governments to ensure such investment benefits Africans as well as investors. He makes



Total amount of investment by China in African mining in 2011



Growth in CAGR for emerging-markets investment in Africa between 2007 and 2012



Estimated rise in African GDP per year over the next 10 years



Forecast African economy by 2050

a distinction between equity investment and debt financing. He notes that when investors take equity in projects and, therefore, share more risk, they are incentivized to find the best contractors to complete tasks. More often than not, these investors will be African companies with local workers that are more experienced in local operations than foreign firms. Using the example of Chinese investment, he advises: “African countries have to find ways of encouraging a movement away from just Chinese debt financing to more equity and risk investment.”

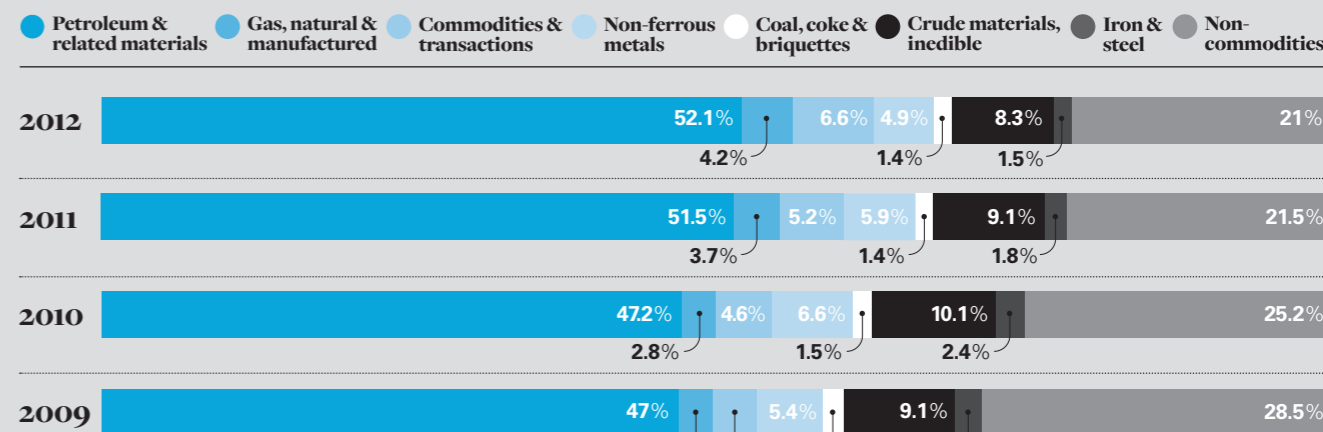
As more foreign investors tell others about their positive experiences engaging in projects in Africa, Obasanjo thinks others will be prompted to follow suit. He sees positive reports from existing investors as critical to shedding negative connotations surrounding the continent. “People will believe a foreign investor, who has come to Africa and is talking about his or her good experience, more than they will believe those of us who are also from Africa,” he concludes. ■

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## TOP AFRICAN EXPORTS BY PRODUCT 2009 - 2012



Source: UNCTAD

# Investment opportunities in African natural resources

## TOP AFRICAN COUNTRIES OF THE FUTURE



**ECONOMIC POTENTIAL**

- 1 South Africa
- 2 Nigeria
- 3 Kenya
- 4 Ghana
- 5 Egypt



**LABOR ENVIRONMENT**

- 1 Mauritius
- 2 Tunisia
- 3 Egypt
- 4 Algeria
- 5 Libya



**COST-EFFECTIVENESS**

- 1 Madagascar
- 2 Mauritania
- 3 Egypt
- 4 Sierra Leone
- 5 Mauritius

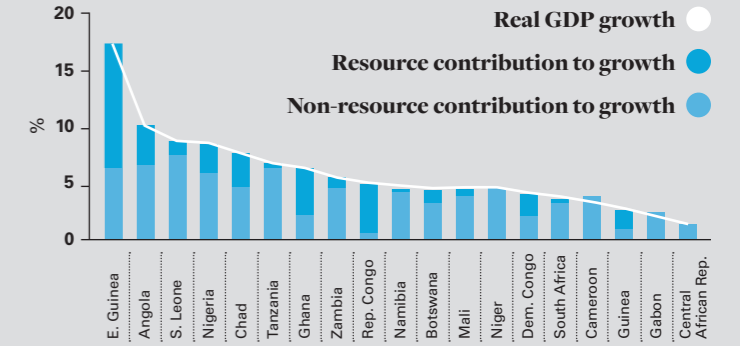


**INFRASTRUCTURE**

- 1 Egypt
- 2 Morocco
- 3 South Africa
- 4 Kenya
- 5 Ethiopia

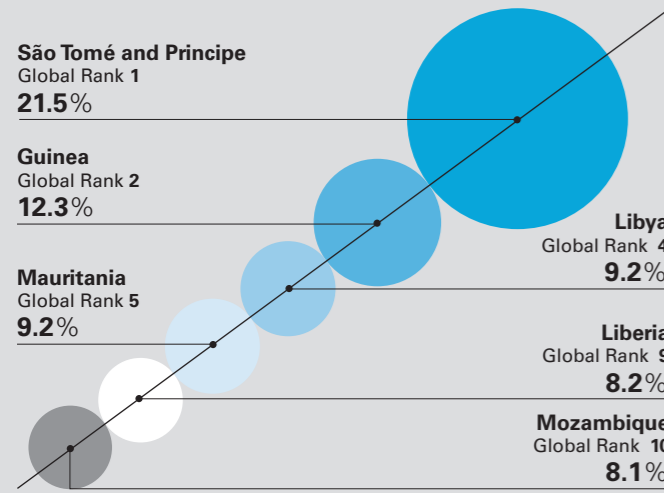
Source: fDI Intelligence, 2013

## RESOURCE AND NON-RESOURCE CONTRIBUTION TO REAL GDP GROWTH 2000 – 2011



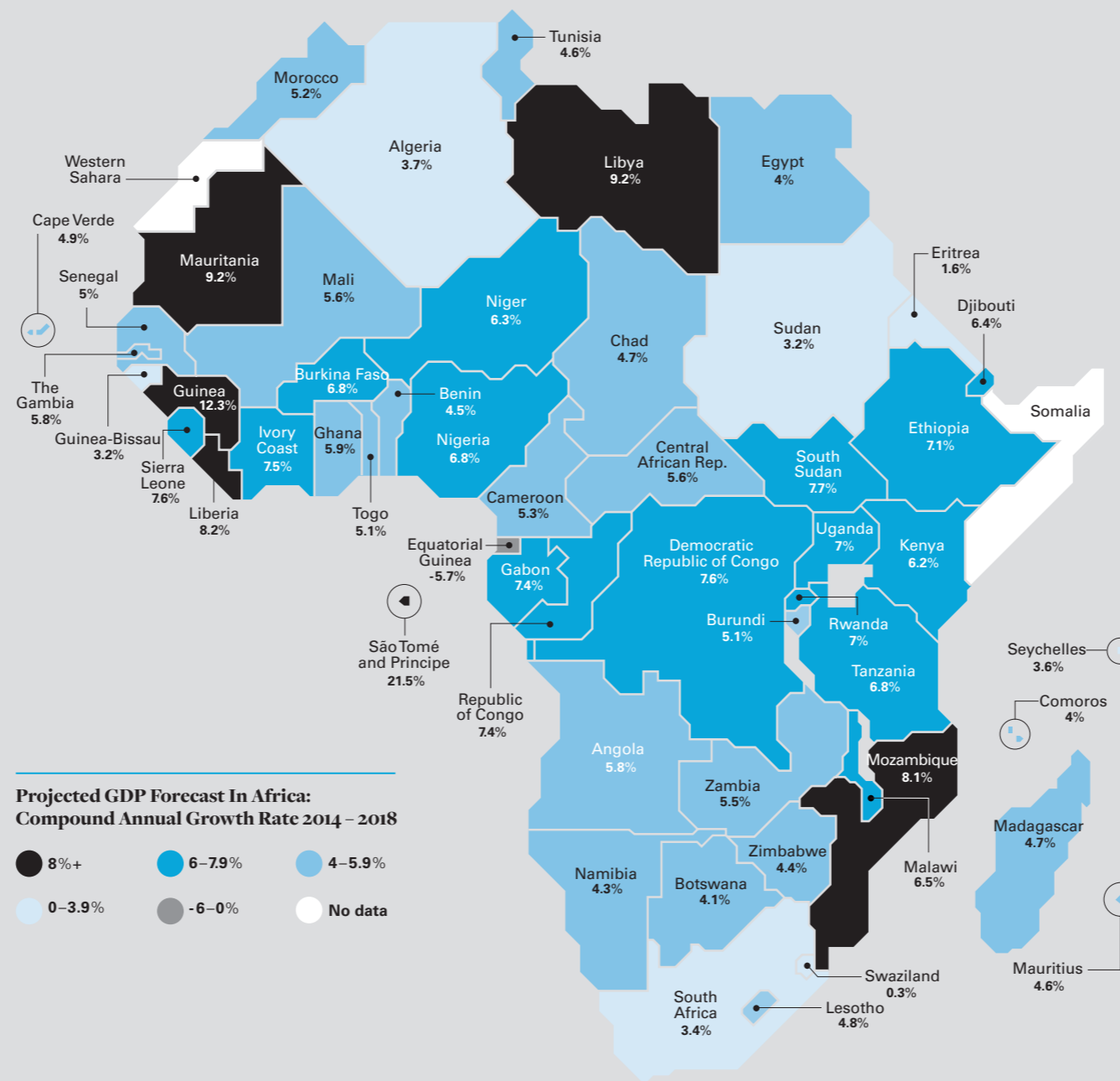
Source: IMF, African Department Database

## FASTEST GROWING COUNTRIES: COMPOUND ANNUAL GROWTH RATE 2014 – 2018

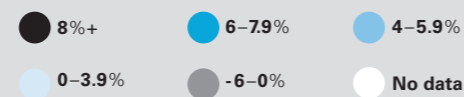


Source: IMF, 2013

## PROJECTED GDP GROWTH IN AFRICA: COMPOUND ANNUAL GROWTH RATE 2014 – 2018

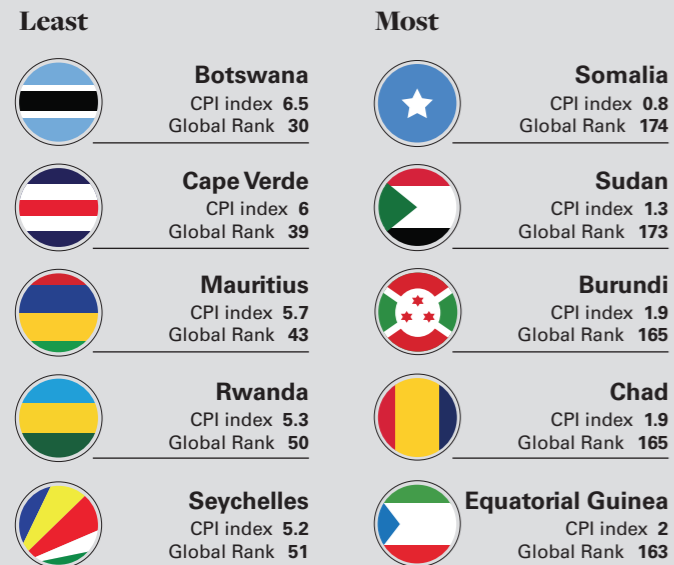


### Projected GDP Forecast In Africa: Compound Annual Growth Rate 2014 – 2018



Source: IMF, World Economic Outlook Database, 2013

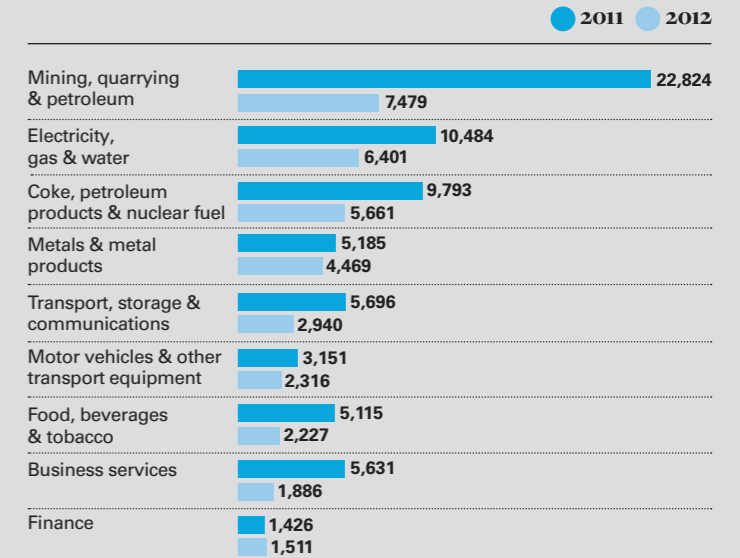
## PERCEPTION OF CORRUPTION IN AFRICA



\*Index score relates to the degree of corruption as seen by business and country analysis: 10 = highly clean and 0 = highly corrupt

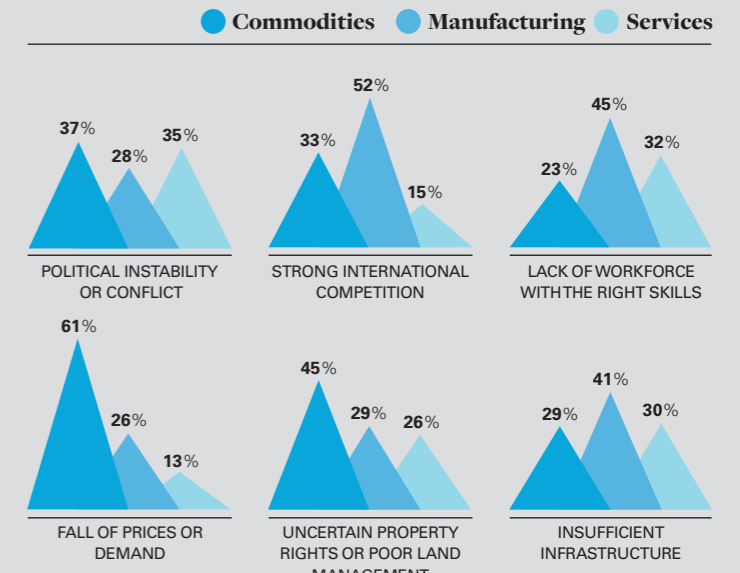
Source: Transparency International, 2013

## FOREIGN DIRECT INVESTMENT (FDI) INTO AFRICA BY SECTOR (US\$m)



Source: UNCTAD, based on information from The Financial Times Ltd, fDI Markets

## MAIN CAUSES OF NEGATIVE CHANGE BY SECTOR OVER THE LAST 20 YEARS



Source: AEO country experts survey