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The World Seen from Poto-Poto by **Mwana Maluku**

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NEW INVESTMENT STRATEGIES FOR AFRICA

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We live in a period which can be thought of as hyper-historic. That is to say, there are simply a prolific number of events and processes happening over a short period of time that are significant enough to change the character of the world in fundamental ways.

The economic growth and development of Africa is one such phenomenon: the African economies have been growing very strongly prior and since the beginning of this decade, making Africa one of the fastest growing regions in the world. Its GDP growth, approaching double digits, is a testimony to the ascendency of the continent to the status of developing economy. As Francois Hollande put it during his visit to Dakar in October 2012, “Africa is the land of the future for the world’s economy. It has all the assets to be the continent of growth, development and progress. (…) In the future one cannot sort out any global issues without Africa.” Africa is on that path to its economic destiny.

A number of factors have been driving the continent’s growth. First and foremost is the normal ebb and flow of the various societies in Sub-Sahara Africa. It is the gradual and sometimes quantum progress that people make as they learn how to govern themselves better and to promote progress. Some of these countries, like Ghana, have embraced democracy and have benefited from the stability it brings. Others, like Angola, having ended their long civil way, are now benefiting from peace.

A second and equally significant factor is the new discoveries of natural resources that are more widespread than ever before: 98% of the world’s chromium, 90% of its cobalt and platinum, 70% of its tantalite, 64% of its manganese, 50% of its gold and a third of its uranium are the province of Africa… As countries such as Ghana and Angola exploit their petroleum deposits, they are experiencing significant economic growth.

Another major phenomenon and one that is global in its effect on underdeveloped economies is the advent of the internet and the rapid development of information and telecommunication technology (ICT) combined with the globalization of business. An individual in Sub-Sahara Africa can acquire financial services on his phone without crossing the threshold of a bank. Billions of dollars of transaction occur as a result services like M-Pesa (a popular bill payment application in East Africa) used on the mobile phone. In general, ITC has enabled Africans to perform business transactions more efficiently and cost effectively, created the conditions and set the pace for rapid growth on the continent.

One of the most profound phenomena driving Africa's growth are the massive investments in infrastructure on the continent being undertaken by China. From paved roads to railroads, from gas pipelines to power plants, China has created the infrastructural platform underpinning Africa's growth. As a result, African countries are becoming increasingly capable of moving goods and services across the continent. Whether it is timber from the DRC being delivered to the port of Mombasa by truck or automobiles moving in the opposite direction. This commerce is only expected to increase with the building of the $13 billion standard gauge railroad connecting Kenya, Rwanda and Uganda commercially.

This change is preparing Africa to cope with even greater changes in its societies, yet unknown, which will be driven by the most compelling demographics on the planet. Africa is already the 2nd most populous continent in the world. Over 60 percent of all Africans are below the age of 24 years old and the continent is expected to experience near geometric population growth in the foreseeable future. A continuously growing population and domestic demand will raise opportunities as well as challenges for all of us. How to feed, shelter and clothe and more generally meet the demands of Africa's aspiring youth is the question and the challenge awaiting answers and responses from the world community.

If endogenous factors have been prime drivers of this extraordinary economic growth, most observers often miss that it has also been largely propelled by the region's emergence as a major target for foreign investment.

Reaching the Inflection Point

In fact, Africa is at an inflection point in its history. It is at a place it has never been before and one that has profound implications for the world writ large.
That inflection point marks the transition of the continent from predominantly aid dependent societies to ones on the receiving end of direct foreign investment (DFI). In 2010, for the first time in the history of the continent, DFI exceeded aid.

According to the United Nations Conference on Trade and Development (UNCTAD), Africa has attracted a record $56 billion of DFI in 2013 compared to $53 billion the preceding year. Africa is actually the only region where inbound investments have increased yet they still account for merely 4% of global DFI.

The industries receiving these investments have vastly diversified over the past decade. Manufacturing and services are on the rise as the African middle class is expanding, whilst extractive industries have started lagging behind. In its 2014 Africa Attractiveness Survey, Ernst & Young established that telecommunications, IT and media, consumer goods, and financial services were the three industries generating the largest numbers of investment projects in

2013 as the extractive industries have fallen off the top 10 list for the first time this year. Similarly, the number of countries receiving significant amounts of DFI has been rising as “investors have started looking beyond established markets such as South Africa and Nigeria” to expand their African operations, as E&Y Africa CEO Ajen Sita noted. If these two countries remain the first and third destinations for DFI, Kenya, Ghana, Mozambique, Zambia and Uganda are closely following them in numbers.

Despite further effects of tighter monetary policies to be anticipated on emerging markets, this trend is unlikely to lose pace in the future as the continent is now considered the second most attractive region for investment in the world.

Understanding the Backbone of Economic Dynamism

This is particularly important since private equity and particularly venture capital have become a true mark of distinction of developed economies. Its process is a tried and true method for starting and developing businesses into major enterprises. Initially very small, these businesses are founded by entrepreneurs, rather than institutions, in environments that support the so-called entrepreneurial subculture.

Today Americans enjoy the fruits of venture capital without giving it due credit for its contributions to the sustainment and enhancement of no less than U.S. economic primacy. That is because this is a highly specialized discipline outside the knowledge and access of the average citizen. It might not be on par with the stock market, but it is a stock market for privately held companies. There are very few creations that are of equal or greater consequence to the economy that is so little understood, but the advent of the professional private equity firm in the late 1950’s and its coming of age in the early 1970’s is easily one of the most significant business phenomena of the last century in the developed world. It democratized the private investment sector, previously the province of wealthy individuals and families such as J. P. Morgan, the man not the firm, the Rockefellers and the Whitneys. Moreover, it developed companies and created industries indispensable to the economy — semiconductors, electronics, computer systems, software and services, telecommunications, biotechnology, medical devices, advance materials, web-based services, and numerous other innovations and technologies — which are now taken for granted as the indispensable foundation of the information and biotechnology age. Moreover, it tapped into the unique and acute entrepreneurial strengths of the U.S. culture. Of the two mayor areas of private equity, venture capital and leveraged buyouts, it is venture capital that is responsible for these major accomplishments. It is at the root of some of America’s most admired technology ventures, which have risen to absolute preeminence: Google, Amazon, Ebay, Facebook…

Venture capital, as it was practiced in the 1960's, 1970's and part of the 1980's, also provided the opportunity for talented and hardworking Americans to participate, without having been born to privilege and political connections, in an industry previously closed to all but the wealthiest in the society.

It is also important to appreciate that the professional private equity industry resulted from a move to correct the unintended adverse consequences of the Glass-Stegall Act. What followed, and proved to be an enabler of the professional private equity industry, was the Small Business Investment Company (SBIC) Act of 1958, a U.S. government program that provided up to a four-to-one match on equity raised by a private group. The Act created a cadre of professional private equity firms whose SBIC experience enabled them to transition to investing private equity money for institutions such as public and corporate pension funds, endowments, foundations and insurance companies, vastly broadening and increasing the sources and amount of capital available to private equity funds, thereby giving birth to the modern private equity industry.

While North America has been the primary mover in this area, numerous countries in Europe and Asia have been successful in developing a venture capital driven entrepreneurial sector.

Most underdeveloped and developing economies have created an informal venture capital culture, largely based on individual and family businesses that have been self and bank-financed, not unlike pre-World War II United States when wealthy families singularly constituted the venture capital industry. In most developing economies family businesses have grown into major enterprises and passed on from one generation to another. Much of this individual and corporate capital resides in the coffers of these successful entrepreneurs and families.

Even China offers a great example of an economy once thought of as state run that is quickly shedding that image in favor of private enterprise. While China has not totally abandoned the role of the state in the economy, and can still be quite intrusive, it has recognized that they cannot best private individuals and companies at taking initiatives, particularly large numbers of smaller initiatives. The model being advanced here, however, is not the Chinese paradigm, but rather a tried and true model that has been quite successful in the United States.

Taking Venture Capital to Africa

Alone neither microcredit nor large-scale publicly funded infrastructure projects are to put Africa on the tracks of sustained development. For Africa to remain durably on this virtuous curve, private equity is required as it will provide early stage and expansion financing to new companies with high growth potential. These companies do not qualify for bank loans, but they need venture capital and the assistance of professionals who can help them negotiate the sometimes fatal hurdles that plague entrepreneurial companies.

Without private equity for start-up and early stage companies, Africa would concede the domain of technology-driven companies to other countries that see the value in providing risk capital to entrepreneurs.

As such, the model being proposed here is not a centralized venture capital fund run by a government, but rather a network of private venture capital funds addressing opportunities on a regional basis, and whose principals will be actively involved in the management of portfolio companies.

For venture capital to succeed in Africa, vehicles in and through which these high net worth individuals and corporate entities can invest must first be created. This will greatly aid the continent in its inevitable transition form an informal to a formal venture capital industry.

It is equally important that African countries' legal and regulatory framework be adapted and "make room for effective alternative dispute resolution," as international finance lawyer Silvestre Tandeau de Marsac puts its. We believe that developing Venture Capital Administrations will be an important milestone on this journey. African Venture Capital Administrations could be formed as vehicles for financing and building new entrepreneurial companies operating in the African economies.

These programs could be supported by Venture Capital Incentive Programs, which could provide tax incentives for long term investments made by venture capital funds into operating companies. One of the obvious benefits of this growth strategy is to facilitate broader participation in every segment of the African economies by their citizens. Another is to diversify the economy by facilitating investments in a wide variety of businesses. An added benefit of creating these Funds will be the availability of capital to finance small entrepreneurs with businesses that can more fully exploit the value chain of a given industry.

Understanding the Strategic Parameters

As Francois Grignon from the International Crisis Group put it, "the United States have realized that China is about to reap the world's resources, and Africa is the playground of this rivalry." Notwithstanding policy preferences, their strategic equations make the United States and China objective competitors for supremacy in the 21st century. Ten years of protracted and costly conflicts in Afghanistan and Iraq have distracted America from this central paradigm and left China with undisputed leeway in the realms of trade and investment in Africa. Offering terms and mechanisms than no other countries was willing to extend to African countries, China has made significant inroads throughout the continent over the past decade, becoming Africa's supplier of choice whilst building its Blue Water Navy.

In recent years, the United States have started to grasp that China's economic expansion could not be sustained without continued access to Africa's resources and opportunities on favorable terms. Following the Gleneagles G8 Summit, U.S. trade and diplomatic missions have returned in greater numbers to the continent. Meanwhile Washington-based groups such as the Corporate Council on Africa have come to gather companies willing to develop their business on the continent. As a result, U.S. trade with Africa has expanded by 35%, whilst its share of DFI has more than doubled since 2006.

Meanwhile, its European partners have struggled to maintain their trade and investment positions despite their long traditions of situation assessment and comparative advantages for market access.

The United States have a timeframe of no more than a couple of decades if this country is to retain primacy in the 21st century. In this multidimensional competition, offering an alternative and a more rewarding model to Africa will be decisive to strengthen U.S. economic relationships with the continent.

The United States approaches this challenge with greater chance of success thanks to a closer cooperation with its European partners, chiefly France and the United Kingdom. The syndromes of Fashoda and Suez having been long overcome, France's commitment in Mali, which came upfront and was met with success, offered a new sense of purpose to U.S.-France cooperation in Africa. As a result, America has become increasingly comfortable with the idea of a joint effort with its European partners in African countries where they have expertise, interests and relationships, letting thereby the United States lead from behind and helping sustain its broader strategic pivot to Asia.

Introducing the Co-Development & Investment Consortium

A new U.S.-backed policy initiative, the Co-Development & Investment Consortium (CDIC) has taken on the task of facilitating a response to help meet these challenges.

Formed by a diverse group of highly skilled professionals from Africa, Europe, and North America, whose relationships, geographic reach and expertise in business and finance, economic development and government would be extremely difficult to replicate. CDIC is currently engaged in bringing a new wave of American industries to Africa for investments in and financing of private sector development projects to support the growth of Africa's small and medium-size enterprises and address the needs of its underserved markets.

This growth imperative has necessitated a focus on small and medium-sized enterprises (SMEs). The World Bank has estimated a $3 trillion shortfall in SME financing globally and is mobilizing capital to address this need. CDIC has identified financing SMEs as one of the most important business initiatives for the foreseeable future, if African countries are to achieve their potential. As such, the principal have launched an effort to address the financing needs of SMEs in select economies where such investments are viable. Under the guidance of our Country Advisor, Mr. Jameleddine Chichti, a former Senior Government Economic Advisor, Tunisair CEO and Dean of the Manouba Doctoral School of Economics, Tunisia is at the forefront of this effort. CDIC will focus on mobilizing capital in these select economies with an emphasis on enabling and increasing trade within the continent and outside of it with the larger developed economies. It will also focus on tapping the entrepreneurial energy in these select, developing economies.

While the infrastructure for financing SMEs and entrepreneurial companies in developed countries is taken for granted, very few developing economies have even scratched the surface in building this vital platform. CDIC believes that the first order of business in mobilizing investments for SMEs in developing economies is to put in place the infrastructure for financing private companies in these economies. Therefore, the first step is to provide select economies with the vehicles of venture capital funds to build that infrastructure. Investment structures will meet clearly defined expectations and investment focus: being actively managed, pursuing sustainable economic development and targeting green investments such as renewable energy, agriculture (capacity development and supply chain) and light manufacturing. CDIC will seek to exploit the involvement of two of its leading Principals, David Wilhelm, former Campaign Director of Bill Clinton, Chairman of the Democratic Committee, founder of Woodland Venture and Hecate Energy, and Michael Granger, chairman of Africa Global Sourcing, founder of Ark Capital and of the Capital Access Forum, in "Power Africa," a $7 Billion U.S. Government initiative announced by President Obama over his latest trip to Africa to double access to power in sub-Saharan Africa. It will undertake to develop a network of funds to invest in SMEs in countries where they would enhance their economic benefits whilst maximizing shareholders' interests.

CDIC will also advise select rapidly emerging economies on how to best foster entrepreneurial capabilities, develop public-private partnerships and build their SME financing infrastructure to fulfill their full potential in the 21st century. This effort will include the organization of the domestic capabilities and partnering with Europe and the United States in accessing matching capital to create investment vehicles substantial enough to address the financing needs of local businesses.

Ultimately, CDIC will seek to leverage the core competencies of developing economies in which we operate to attract investors and trading partners. We will of course utilize traditional sources of development financing, such as large international foundations and international financial institutions (IFIs). And we will also seek more innovative ways of attracting capital such a providing incentives to multinational businesses and institutional investors by organizing vehicles that are more familiar to them and offering incentives and the traditional protections of their capital that they have come to expect. We will market our VC funds to major multinational co-investors to partake in Africa's sustainable economic development, as seed and lead investor in select funds to which they can bring additional resources and operational assistance.

CDIC believes that this capital mobilization is underway in many economies, however, we seek to formalize it and make it a more deliberate and comprehensive effort in select economies — such as the Congo and Côte d'Ivoire, where our efforts are being spearheaded by The Hon. Guy Moskit, a former Minister Delegate of Foreign Affairs with significant achievements in Track Two Diplomacy— which we believe have high potential and can significantly benefit from it.

Lastly, a strong emphasis will be placed on export trade in conjunction with these funds. In economies with an abundance of commodities, effort will be made to attract investors that the economy requires to strengthen the local value chain and create products for export. CDIC will use its extensive network of relationships in developed economies to attract expertise and transfer technologies necessary to achieve success in its country projects. It will also organize operational assistance funds that can operate in parallel with investments to procure needed expertise wherever it resides to successfully build capacity.

The intended output of the effort is to substantially increase the amount of capital deployed in the continent's economies aimed at building the cadre of SMEs into major enterprises. The expectation will be the development of local industries and competencies and the creation of a substantial number of jobs. For this purpose, it will target sustainable industries and address current issues related to investing in Africa such as mitigation of climate change, transfer of technology and balancing China's influence.

Forging a Partnership of Equals

Africa has a lot to teach the world, even the most prosperous societies. We benefit from our association with Africa more than we often realize. France's significance in world affairs has lots to do with its presence in Africa. Likewise Europe's strategic depth points South at Africa, as much as East at Eurasia. By forming this venture, we intend to develop and strengthen powerful lasting relationships with a number of stable and aspirational African countries with the potential desire and enthusiasm to meet these challenges. Beyond the American-European-African axis, CDIC also looks forward to working with other like-minded countries sharing these values and objectives.

Throughout this journey, we desire to be honest partners for Africa, passionate about forging an effective and mutually beneficial relationship and contributing to delivering growth and opportunities for its populations.

CDIC's initiative is timely as President Obama invited 47 African Heads of State and Heads of Government to attend the U.S.-Africa Leaders Summit in Washington, D.C., on August 5 and 6, 2014, and seeks to advance ambitious trade and investment policies towards the continent. Addressing South Africa's youth in Cape Town on June 30, 2013, President Obama called on America to "up our game when it comes to Africa" as "we are moving beyond the simple provision of assistance, foreign aid, to a new model of partnership between America and Africa — a partnership of equals that focuses on your capacity to solve problems, and your capacity to grow, (...) that unleashes growth and the potential of every citizen, not just a few at the very top."

This vibrant call for action points at our "New Frontier." For all of us, whether in Africa, in Europe or in North America, this is an exciting prospect and quite certainly one of the few historic opportunities one is presented in a lifetime. We would feel a certain privilege if we could be part of this fascinating and storied journey, unleash initiatives and direct impact investment to make a difference for Africa and build a brighter future for its people.

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