
JAKE BRIGHT AND AUBREY HRUBY
THE NEXT AFRICA
AN EMERGING CONTINENT BECOMES A GLOBAL POWERHOUSE

and Johannesburg, to offer greater big data, cloud computing, and mobile services to clients, business partners, and universities across the continent.

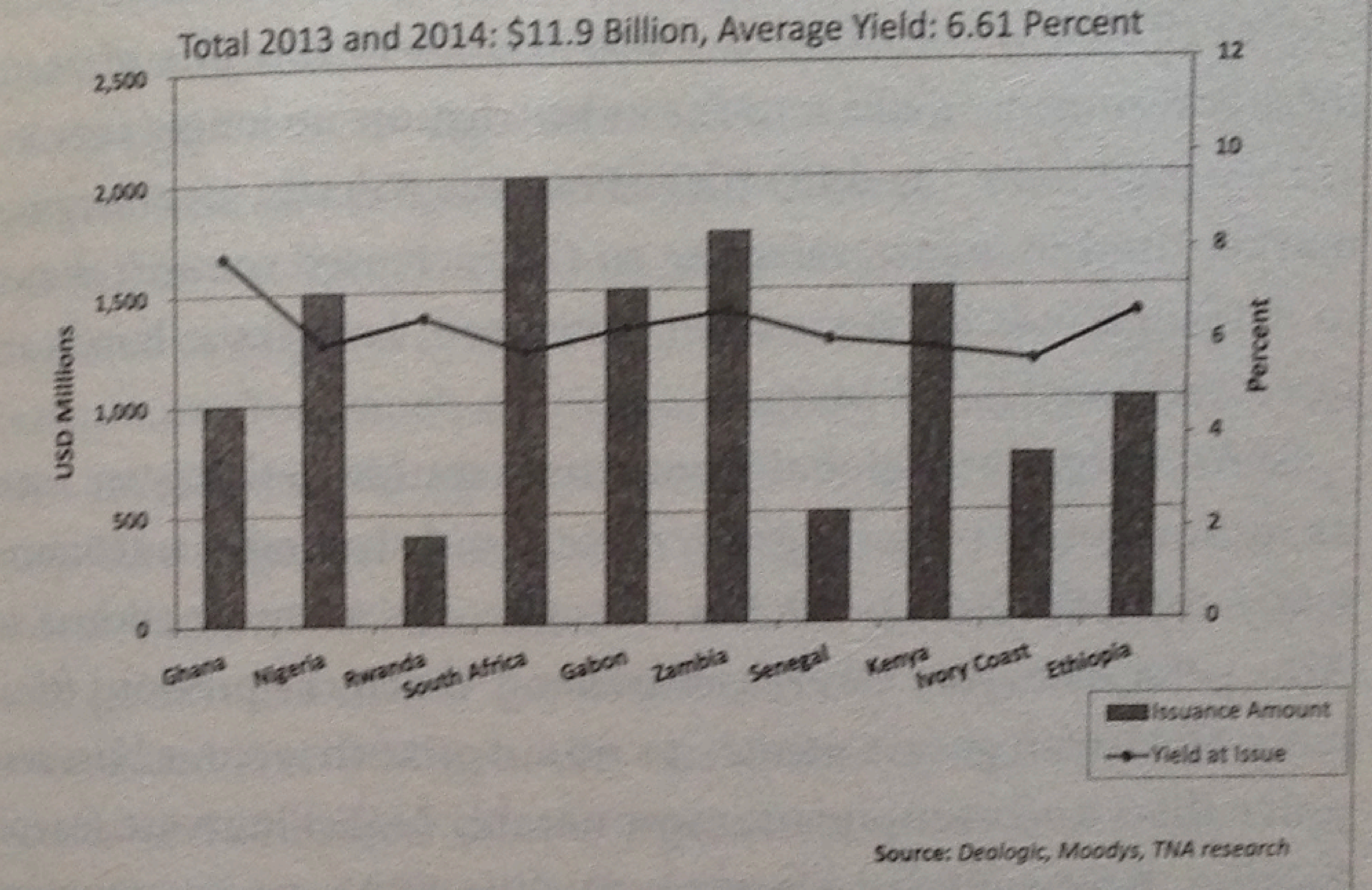
Across SSA, FDI flows and greenfield projects are adding up quickly, with positive ripple effects in creating jobs, professional capacity, infrastructure, and services.

Foreign Portfolio Investment to SSA

While government bond markets rarely capture the allure of stocks, each year global investors purchase trillions of dollars in sovereign securities from nations around the world. Whether U.S. Treasuries, German bunds, or Chinese 10-year notes, these fixed-income instruments generally provide investors more stable (though typically lower) returns than stocks, while offering governments a financing channel for services and infrastructure. Sovereign bonds also bring an extra measure of accountability to governments through national ratings and yields, both of which go up or down in global markets based on good or bad economic policies.

So how has SSA factored in sovereign bond markets over the last few decades? It largely has not, with the exception of South Africa. Another mark of Africa's financially disconnected past, few SSA countries even had sovereign credit ratings (a basic requisite for issuing global bonds) into the 2000s. A record boom in global African bond issuances, many maiden, over the last two years is changing this picture. Since 2013, SSA countr d $11.9 billion in dollar-denominated sovereign Eurob e over a 15-month period in 2013/14 than the prev years combined.

Figure 2.3: Sub-Saharan Africa Global Sovereign Bond Issuances



In fact, many Americans may already be holding African bonds in their investment portfolio. Big institutional investors such as PIMCO and Fidelity have been increasingly buying them, attracted to higher yields, improved sovereign risk profiles, and a new regional asset class to diversify their portfolios. Connecting to global bond markets has given African governments, who are scrambling to deliver infrastructure to match their economic growth and emerging middle classes, a source of financing other than private loans or foreign aid. Nigeria is funding greater electricity output with its recent $1.5 billion issuances. Kenya is using its 2014 Eurobond money to upgrade power, roads, and seaports. Zambia plans to spend on improved health care and railways.

Many bond issuers are getting national credit ratings for the first time, as th come more accountable and transparent, which is open to this previously unavailable financing market. African governments are also benefiting by inclusion in standard indicators, J.P. Morgan's Emerging Market Bond Index Global (EMBIG). "EMBIG is a benchmark index. The moment these governments make it to the index, they are no longer as exotic as they used to be," said PIMCO's Francesc Balcells, an emerging-market fund manager, referring to the increased comfort shown to African bonds by international investors once those bonds are rated and listed by J.P. Morgan.

SSA's entry into global bond markets (something we view as resoundingly positive given Africa's aid-dependent, economically disconnected past) has brought out a small chorus of Afro-pessimism that's worth addressing. Given the previous fiscal woes of African governments, it's no surprise that some business journalists and economists, most notably Nobel laureate Joseph Stiglitz, have sounded alarms regarding SSA's recent sovereign borrowing spree.* They point to the possibility of a new African debt crisis or warn that bonds impose fewer conditions and monitoring on governments than multi-lateral lending from other countries.

There are certainly always risks to sovereign debt markets. But the critics of African bonds have yet to suggest better ways for governments to pay for crucial infrastructure. To wean themselves off foreign aid and move from "frontier" to "emerging" market status, SSA countries need sovereign bonds, just as China or Brazil did. When SSA governments meet the same criteria as other countries to receive national credit ratings, are listed on benchmark indexes, and pass the scrutiny of hard-nosed investors at the world's leading bond funds, why shouldn't they finance their development through international bonds? And if certain govern-

* We've been fans of Stiglitz's writing and beneficiaries of his eco[illegible]s textbooks. However, we've respectfully disagreed on his stance on [illegible]nds, including in my (*Jake's*) May 29, 2014 article in *The* [illegible]*'s Quar*[illegible]ath of Markets."

ments, through poor fiscal and economic management, bring on the scrutiny of ratings agencies and investors, that's exactly the kind of accountability that is desired.

Sovereign Credit ratings and variable bond yields provide instant and economically tangible feedback. Investors and Africa's citizens will be watching keenly how these new bond funds are spent compared to original commitments, most of them to upgrade infrastructure. Too much corruption or bad economic policy will cause investors to dump certain bonds and drive up borrowing costs. The Nigerian government realized this during its 2014 central bank whistleblower corruption scandal. When central bank governor Lamido Sanusi, a globally respected financial steward and *Time* 100 honoree, raised the issue to Nigeria's parliament of $20 billion in missing state revenue, he was fired by the country's president, Goodluck Jonathan. The affair sparked widening spreads on Nigeria's new bonds, a drop in its stock market and currency, and a Standard & Poor's sovereign credit downgrade.

There will certainly be sovereign borrowing ups and downs; similar to Argentina, some SSA nations will find it difficult to meet investor and fiscal commitments. But countries such as Greece have faced the same problems, and few suggested they simply not participate in global bond markets.

Another benefit of SSA countries connecting to national credit ratings, sovereign bond markets, and new digital trading platforms is enhanced ability to attract other forms of foreign portfolio investment (FPI). This includes Africa's stock markets, which have received more enthusiastic investor press than its sovereign bond markets, yet are still fairly nascent and relatively small by value. The entire continent has 29 stock exchanges, but most of them have fewer than 40 total listings. Prior to 2011, South Africa aside, SSA's total stock market capitalization was less than $100 billion, around [illegible]uble that of Starbucks today. By 2014 the combined value of equities on Nigeria and Kenya's stock markets would exceed that, as many SSA exchanges had embarked on campaigns to upgrade their securities markets and encourage new listings.

Per early 2015 numbers, the leading SSA exchanges by value and stocks are South Africa (market cap $1.01 trillion, 392 listings), Nigeria ($84 billion, 193 listings), and Kenya ($25 billion, 65 listings). Moving forward, we expect to see three vital trends with SSA stock markets. The first is modernization of exchange trading platforms paired with better governance and financial reporting. In East Africa, discussions are ongoing to create a regional stock exchange through the intergovernmental East African Community integrating the markets of core members Kenya, Rwanda, Tanzania, and Uganda. This comes on the back of successful efforts to upgrade the IT infrastructure of the Nairobi Stock Exchange. These measures are improving stock liquidity (the ability of investors to quickly get in or out of stocks) and supporting Kenya's moves to enter derivatives and futures markets. In French-speaking West Africa, the Côte d'Ivoire-based regional stock exchange Bourse Régionale des Valeurs Mobilières, or BRVM, has digitized and harmonized trading across all its 16 members. Nigeria's stock exchange recently partnered with NASDAQ to adopt the latter's superfast X-stream trading platform, OMX. And on financial reporting, many of SSA's leading stock exchanges are adopting new standards, including requiring listed companies to provide certified financials from big-four auditing firms such as PricewaterhouseCoopers (PwC) or KPMG.

The second trend to expect—indeed, an intended result of modernization efforts—is a doubling and tripling of SSA stock listings and public financing for businesses. Nigeria, Kenya, and Ghana's exchanges have all launched efforts to encourage greater

listings from companies representing diversified business activity. African stock experts such as Ugandan fund manager Larry Seruma, predict that SSA's total stock market capitalization will double within two years to roughly $2.2 trillion, and then every three to four years after that.

The third and most pervasive trend to expect from SSA's equities markets, one highly indicative of the next Africa, is greater inclusion of African stocks in investment portfolios across the world. Larry Seruma has been a leader of that change. Through his U.S.-based Nile Pan Africa Fund, Main Street investors can now own a portfolio of Africa's fastest-growing stocks for as little as $1,000—the minimum investment required for individuals.

With assets of $45 million, Nile was the first and only African mutual fund to advertise across the United States, on Bloomberg News, offering investment options online. Nile also won the prestigious 2014 Lipper Award for Best Emerging Markets Fund, returning roughly 9 percent annually through 2013.

"We will see many more issuances and global ownership of African stocks," said Seruma. "The major indices in Europe and the U.S. are adding more exposure." More generally, Seruma thinks Americans will invest in African stocks primarily for higher yields and portfolio diversification, but he also believes that Nile represents a new approach to the continent beyond charity: "The best way to help Africa is to invest in Africa. That investment gets Americans, first, high returns and an allocation in the continent. But in Africa it also has the potential to reduce the cost of capital, to provide more stable jobs, more sustainable economic growth, and reduce poverty." We agree—the Old Africa: donation to celebrity charity; the Next Africa: African stocks in your 401(k) earning 12 percent.

Diaspora Dollars

Although remittances (money sent home from immigrant populations abroad) are not a conventional global investment indicator, we believe they reveal much about Sub-Saharan Africa's transformation. In 2010 and 2011 something remarkable occurred for Africa. For two consecutive years, money wired home by SSA's immigrant populations exceeded foreign aid. What's more, during both years, remittances to all of Africa ($30–$35 billion) topped FDI to the entire continent, according to analysis by the African Development Bank. Diaspora dollars have continued to grow. SSA's 2013 remittances of $32 topped bilateral aid of $26.2 billion, and these diaspora numbers represent only official flows through money transmitters such as Western Union. Additional funds are brought home in pockets, bags, and suitcases.*

Africa's remittance patterns speak volumes to the fundamental changes occurring on the continent. Unexpectedly, the sum of money earned through the hard work and success of African immigrants abroad and sent home informally exceeds total foreign aid from the advanced economies in which those immigrants are working. And that very aid is rooted in a decades-old concept that Africa and Africans lack the full capacity to succeed economically.

As African remittances bolster SSA markets by financing consumption or paying for things like school fees for sisters, brothers,

* Fees on African immigrant remittances fees, an estimated $1 billion in 2014, are a hot topic. SSA has the highest remittance cost of any region in the world (12 percent), according to a 2014 Overseas Development Institu[illegible]port. This skims productive output away from its economies, but as [illegible]s, the total value of diaspora dollars and their fees (reduced, it is ho[illegible] technology and competition) also presents tremendous [illegible]rtuni[illegible] tal finance in SSA.

and cousins, they are also becoming an important source of investment finance for entrepreneurial ventures, from curbside shops, to tech startups, to Nollywood movies in Nigeria. Similar to startup ventures in the United States, the first round of seed financing is often from family and friends.

Beyond China

While stories on China's hefty Africa investments have been favored by business media, in March 2013 a slightly different headline gained attention. "Malaysia, Not China, Is Asia's Top Investor in Africa," reported a widely recirculated Reuters story that made *Time*'s "Must-Reads from Around the World" list. Per the piece, Malaysia's total FDI portfolio in Africa of $19.3 billion surpassed that of China's $14 billion. Furthermore, it noted Africa's growing status as a multi-national destination for global investment based on increasing FDI from BRICS countries, such as Brazil, Russia, and India. In 2012 these countries collectively held investments in Africa of $47.7 billion, compared to China's $27.7 billion.* When it comes to annual FDI flows, in 2012, there were capital flows ($14.7 billion) from the traditional sources such as the United States ($3.7 billion), UK ($7.4 billion), and Italy ($3.6 billion).

Sure, China continues to invest significantly in Africa, but moving forward, it will be less of a standout, as many countries redefine priorities toward greater trade and investment with SSA. We also expect a greater mobilization of U.S. FDI into Africa, especially following 2014's historic U.S.-Africa Leaders Summit, which saw some $14 billion in new U.S. business commitments toward Africa.

* BRICS stands [illegible] Russia, India, China, and South Africa.

ANNOTATION ON CHINA IN AFRICA

Much has been made of China's strategic direction and investments in Sub-Saharan Africa over the last decade. In fact, the topic of China's presence in Africa, investment in Africa, and convoluted motives toward Africa has become a popular subgenre in books and media. For those unfamiliar with the subject, here is our simplest breakdown. In the least editorial terms, for the last decade China has increased political and commercial ties with Africa on a rapid scale. It has broadened diplomatic relations and cultural exchange programs with Africa, expanded trade in goods and services, and embarked on a spree of SSA business and investment activity, largely coordinated through partnerships with African governments. Over the last five years in particular, China was involved in construction of Kenya's Thika Super Highway and financed the African Union's new $200 million Addis Ababa headquarters, to give just a couple of examples. Characteristics of these partnerships often entail agreements for Chinese government entities and companies to finance and build infrastructure, in exchange for African concessions of commodities or land. The conventional wisdom says Africa needs infrastructure; China needs resources from Africa (largely commodities) to fuel its industrializing economy, while simultaneously creating new markets (Africa's billion-plus population) for its goods.

Then there are the China-in-Africa criticisms. On the lighter side, the Chinese are faulted for [illegible] of transparency or uneven p[illegible]ips (e.g. [illegible]g Chinese materials and work[illegible]ed on m[illegible]a

projects or demanding outsize concessions), or their neglect for pressing democracy and human rights improvements on the back end of their Africa deals. The starker critiques border on conspiracy, and involve accusing China of imperialist behavior in Africa and even labeling the China-Africa venture as twenty-first-century colonialism.

So what's our take on all this? After a great deal of discussion, we determined not to make China-in-Africa a prominent focus in this book. While China's elevated activity in SSA certainly deserves recognition, we feel the topic is overplayed in many policy discussions, overshadowing other key trends on the continent and SSA's increasing leverage with a multitude of global investment partners. Additionally, in some cases we think certain diatribes on SSA's relationships with China border on paternalism. (African governments are sovereign entities with plenty of capable actors to look out for their interests.) In other cases, such as those dealing with human rights, better business terms, or lack of transparency, we certainly acknowledge that there are many flawed deals and practices in China's Africa relations. But trends are already in motion that will address these things moving forward. To start, increasing FDI from more countries proves that a larger world is eager to do business with Africa, creating competition for China and more negotiating leverage for SSA. As for transparency, democracy and human rights concerns, China and SSA governments will likely learn in Africa what China is learning at home: it's nearly impossible to create freer markets without spurring growing middle classes and more edu- c[illegible]izens who demand freer media and political [illegible]These demands are building in SSA and will no doubt create new pressure points on African governments to better manage business with all outside partners, not only China.

Torrents of Opportunity

Mandela's vision of the power of investment in building post-apartheid South Africa in 1994 is becoming a reality for the rest of SSA. The world is witnessing a historic mobilization of private capital toward Africa, one that will play a pivotal role in enabling its countries and unlocking greater economic potential for many Africans. Billions of dollars in FDI are fueling private-sector development, skills transfer, and jobs in new GE plants in Nigeria and coffee mills like Rwanda Trading Company in Kigali. African governments are now financing infrastructure such as roads, hospitals, and power dams through billions in globally rated bonds, whose performance is tracked on benchmark indices. Main Street American investors, who in the past may have connected with SSA only through a tax-deductible donation, are now financing African social and private-sector development by purchasing stocks earning 10 percent returns.

Greater investment in Africa, and the competition among its countries to create the proper environments to attract th[illegible] investment, will be a permanent part of Africa's futur[illegible]rs to come, South Africa will be rivaled by countries suc[illegible] as the number-one destination for FDI on the c[illegible]her trend, one that is already under way, will be gr[illegible]n-vestment between African countries. South A[illegible]d-ing the charge, and Nigeria and Angola ha[illegible]n sovereign wealth funds. And in the not so fa[illegible]ly for a new indicator to pop up in the global[illegible]he

one for African FDI into countries like the United States or in Europe. "It can happen," Aliko Dangote told us in a conversation at the Business Forum of the 2014 U.S.-Africa Leaders Summit, just a few hours after announcing the $6 billion Carlyle and Blackstone deals.

Dangote went on to reference India's surprise global deals years earlier, and alluded to a future where African entrepreneurs regularly make investments in large ventures outside the continent: "Twenty years ago nobody would have imagined Indian companies would be taking over huge corporations, like the Arcelor deal or Tata's deal with Jaguar. It is only a matter of time."