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Africa: A New Frontier for Emerging Markets

by Javier Santiso, Chief Economist, OECD Development Centre

- ◆ Fast-growing African countries are attracting private equity and risk capital as never before
- ◆ The conditions attracting private investors are likely to improve

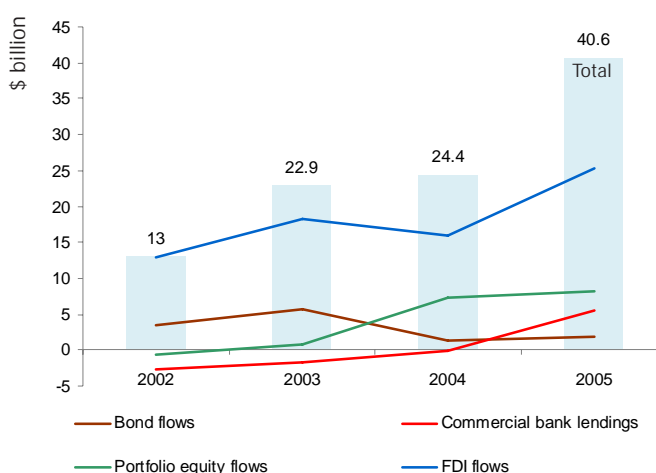
An African Investment Boom

Africa is the new emerging markets investment frontier. And the enthusiasm is no longer limited to South Africa, once the limit of plausible investment: Kenya, Ghana, Botswana and others are drawing the keen eye of the market. And in spite of recent market turmoil, capital continues to flow from London and New York, and from rapidly-growing African financial centres in Johannesburg and Lagos.

The desirability of frontier markets has been influenced by the new actors in African investment. A place still best suited to the strong-hearted investor, private equity and specialized, high-risk investment funds are finding Africa a fertile ground for innovative and nimble investment.

Improved information has been essential in translating economic stability into investor interest. Analysts, business journalists and general press are garnering African markets unprecedented coverage, with the message that Africa is on track. Renaissance Capital, a Moscow-based bank, has begun covering 14 Sub-Saharan local equity markets, and trumpeting its ambition to establish Africa's first "fully-fledged, pan-regional investment banking, research and asset management operation" – a title its competitors are now keen to dispute.

Private Capital Flows to Africa



New Players Creating Opportunity

Private equity

In total, private equity has raised near \$3 billion in funds over 2007. As recently as last spring, Renaissance Capital announced the launch of a billion-dollar pan-African investment fund. A few weeks later, South-Africa's Pamodzi Investment Holdings announced a \$1.3 billion pan-African fund backed by American financial institutions.

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This activity is not limited to Western or African investors, as the \$5.5 billion purchase of 20 per cent of Standard Bank, the largest South African Bank, by the major Chinese bank, ICBC (Industrial and Commercial Bank of China) shows. The London-based fund Blakeney Management invests in Angola, Mozambique or even Ethiopia, betting on the countries that have managed to pull themselves out of years of violent conflict. These latest initiatives follow in the stead of Ethos Private Equity, which launched a \$750 million fund in 2006 – the largest pan-African fund to date.

Portfolio investors

Investors in emerging securities are also developing a taste for Africa, with global emerging market funds deploying near 10 per cent of their portfolios on the continent. Special pan-African securities funds, such as those developed by investment firms Investec or Stanlib, a subsidiary of the Standard Bank of South Africa, have also emerged. Imara, a South African investment group, now offers three African funds, of which two are dedicated exclusively to Nigeria and to Zimbabwe respectively.

To these institutions, private investors must also be added, foremost of these, the Saudi prince Al-Walid Ibn Talal, who began investing in Ghanaian banking, Telecoms in Senegal, and was behind the creation of a new \$400 million fund: *HSBC Kingdom Africa Investments*, in association with HSBC.

Commercial banking

The recent overhaul of many African banking sectors, most notably Nigeria's, has brought a new energy to the sector, and a renewed enthusiasm for opening new markets within Africa, be it investment banking and project funding, or, following the experiences of microfinance organizations, extending financial services to previously excluded populations.

Box 1. Hedge Funds

The oft-reviled hedge funds have also joined in fray. Tudor Investments bet on *Africa Opportunities Partners*, a vehicle investing in Tanzanian beer, Senegalese Telecoms, and Insurance companies in Egypt. Most recently in Europe, the Swiss financier Nicolas Clavel launched the first hedge fund entirely dedicated to Africa: the *Scipion African Opportunities Fund*, with the aim of raising \$700 million.

Reasons Behind A Boom

International conditions are pushing investors into the arms of riskier, but potentially rewarding investments. Meanwhile, investment opportunities have expanded greatly in African countries, with over 522 firms now listed on sub-Saharan stock exchanges, up from barely 66 in 2000.

The annual *African Economic Outlook*, a joint publication of the OECD Development Centre and the African Development Bank, has underlined for several years that growth in Africa is back on track. Not only that, but growth is occurring even in the absence of oil or mineral wealth, as the effects of Asia's growth spreads throughout the continent. In reaction, African countries are modifying their policies and encouraging private investment in viable and profitable projects with a lasting impact on development. That means more opportunities for investment are bound to open up.

Those opportunities will be in a context of an increasingly qualified and sophisticated African work force. At the helm of most Africa-centred funds is a new generation of African financiers with broad experience of international financial centres. For example, leading the Accra-based fund of *Kingdom Zephyr African Management Company* is the Ghanaian Kofi Bucknor. The Tunis-based manager of the \$1 billion *Emerging Capital Partners* funds, the largest private equity firm on the African continent, is the HEC and Harvard-educated Vincent Le Guennou.

It is understood that Africa will not become a new emerging Asia or Latin America overnight. But current developments should definitively dispel the lingering notion of aid as Africa's only recourse. Africa deserves more attention and more action. Less sympathy, and more investment.



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OECD Development Centre
2, rue André-Pascal,
75775 Paris Cedex 16, France
Tel.: +33-(0)1 45.24.82.00
Fax: +33-(0)1 44 30 61 49
E-mail: dev.contact@oecd.org