SPAIN &
PORTUGAL
FRANCE
GERMANY
UNITED STATES
EASTERN
EUROPE
(6 Countries)
INDIA
INDIA
(2nd Part)
CHINA
CHINA
(2nd Part)
GB

It's Waiting There For You

When considering an investment focused on this one particular region of the world, it's impossible to ignore the risk it brings today, not to mention the risks observed over the years. While identified as an area of great progress and achievement, corruption and greed have also been mainstays throughout its recorded history. Politically the place has pinballed from stability to chaos, with standards of democracy and civility cast aside at times by some who seem to favor a type of neo-despotism. This region's credibility on the world stage has wavered accordingly, with leadership clearly favoring the beat of its own drum over the rhythms of other parts of the world. It has certainly had an outsized impact culturally, but its messy history with forced labor and the treatment of large portions of its overall population has led to living standards among common citizens that starkly contrast to those of the ruling class. This region is progressive in some ways but remarkably regressive in others, unable to tackle basic public safety problems that other regions around the world have largely resolved with a solutions-oriented mentality. This irresponsibility extends to its gluttonous appetite for resources, underscoring a disassociation from social and environmental problems it has helped perpetuate.

From an investment perspective, this sounds like a region in which investors would have historically exercised great caution. And they have. But leaving this region – the United States – out of an investment portfolio would have meant a lost opportunity to participate in the growth of the world's largest economy, which is why few investors took a hands-off approach toward investing there, despite its mixed past, its charged present, and its uncertain future. America is a country that to this day finds itself in transition, but still remains a focus for investors around the world. It has problems – big, well-documented problems – but it offers investment opportunities that cannot be found in many other areas globally.

As it turns out, there's another region that displays many of the same characteristics described above, although this one has been largely ignored by many investors uncomfortable with those risks. Africa – or, more specifically, some of the countries comprising the continent – is in a fundamentally different stage of development than the US, but it has a steep potential trajectory for growth ahead, which could lead to outsized returns for investors able to assume a forward-looking perspective. Progress is uneven and messy for growing economies, but as the US and other leading nations have proven over and over again, embracing these risks could ultimately be very much worth the reward. But having the right perspective is important, and that means understanding the most effective ways of investing in Africa, and calibrating what can go wrong as much as what can go right.

Disregard That Map From School

In most world maps posted on classroom bulletin boards, Africa looks like the southern cousin of Greenland, that sprawling island in the North Atlantic that could almost obscure the continent if superimposed upon it. But this is entirely misleading, a by-product of flat map distortion that increasingly exaggerates the area of landmasses as they get closer to the poles. The reality is that no less than 14 Greenlands would fit comfortably inside Africa. A creative puzzle maker could fit the US, China, India, Japan, and the entirety of Eastern Europe, while still leaving room for a handful of smaller countries to squeeze inside the borders. If considered as a single country, it would be the biggest by far, a full 1.77 times larger than Russia.

But Africa is not a country. It is a collection of 54 countries, largely carved up by the spread of European colonialism. Like many non-European areas in the 19th and early 20th century, Africa was viewed as ripe for the picking by Western European nations looking to expand their empires and gain free access to its wealth of natural resources. In 1870, 10% of Africa was controlled by Europe, primarily the valuable coastal territories that could help facilitate trade. Over the next four decades, emboldened by industrialization and advances in medicine, the Europeans expanded inland, and by 1914 almost 90% of the continent was under European control. Most of Africa became the property of those who marched in and took it, with many people living in those territories subsequently co-opted as forced labor in the very same lands that had been stolen from them.

Propaganda is a well-worn strategy for governments with agendas, and in defending the colonial push into Africa, the Europeans were masterful.[1] Dehumanization became an integral part of that strategy. Well past the abolition of slavery, indigenous people were cruelly so-called "human zoos" for the public to gaze upon. The implication was fairly obvious: these were savages, culturally and socially inferior, and thus taking their land was little different than clearing an area of wildlife. If the intent of these kinds of exhibitions was to create suspicion around people who looked and sounded differently, it was a wildly effective strategy. Even today, the continent is filled with swaths of people and cultures that many others simply do not fundamentally understand, and because most people – including investors – tend toward familiarity, most countries in Africa have not attracted the attention commanded by other emerging and developing nations. But those who ignore Africa may be doing so to their detriment. The region stands alone among these economies in one important way, and it's not likely to relinquish this advantage anytime soon, if ever.

Growth with a Supersized G

Africa is growing faster than anywhere else in the world, and it's not even close. "Several recent studies project that by the end of this century, Africa will be the only continent experiencing population growth. 13 of the world's 20 biggest urban areas will be in Africa —

[1] The pun here is intended.

up from just two today — as will more than a third of the world's population." [2] Improved access to medicine in particular has had a dramatic impact and is a significant factor in demographic predictions over the next few decades. According to a study by the United Nations, "the populations of more than half of Africa's 54 nations will double – or more – by 2050, the product of sustained high fertility and improving mortality rates… African mothers are expected to have about 450 million children in the 2020s, [which is] projected to rise to more than 550 million in the 2040s, about 40% of all children born worldwide in that decade... The continent will then be home to at least 25% of the world's population, compared with less than 10% in 1950." [3]

It's impossible to understate the economic impact of population growth on this scale. Larger populations simply need more things, and need drives commerce, which presents a considerable opportunity for businesses that sell into these markets. It impacts everything from basic infrastructure to the essentials for everyday living. Local cultural norms play a significant role in the growth dynamic as well. For example, children in Egypt live with their parents until they get married, at which point they go out and find a place of their own, which drives home ownership or rentals and all of the things that go along with that. And therein lies opportunity. Businesses are building more housing, which of course requires more building materials but also requires additional public infrastructure, like water pipes and sewage pipes and electrical lines. When people do find a place to live, they need a lot of new things – furniture, appliances, all types of other consumer staples and discretionary items and supplies – and this will drive sales in those areas of the economy. This demand is not slowing, and it will present opportunities for businesses that sell into these markets. It will, of course, also create an opportunity for jobs. In most African countries the median age today is below 20, so that means an enormous population of young people preparing to enter the workforce, which itself will have a significant impact on local economies. It is important to understand that this young population will be entering a workforce less formally defined relative to what most people are used to in the West. While many will work in offices of fast-growing companies, even more are likely to work in the informal sector—selling goods in less-structured corporate settings such as markets, providing transportation, or delivering simple services such as mobile battery pay-per-use services, which cellphone owners without reliable electricity in rural areas use to charge their cellphones. These jobs are hard to quantify. Nevertheless, they are significant income generators that support personal consumption growth.

With population growth comes an increase in population density, and this becomes a key consideration for understanding where opportunity collides with governmental capabilities to accommodate that growth. The case for an increase in consumption is simple, but it's important to figure out which countries have a social and political infrastructure best suited to accommodate that growth. The country with the largest population and the largest economy in Africa presents an interesting case study for evaluating this potential. It certainly highlights some of the opportunities for investors in Africa, while underlining some of the risks as well.

[2] "Africa's Rising Cities: How Africa will become the center of the world's urban future" Washington Post, Nov 19, 2021
[3] "By 2050, a quarter of the world's people will be African – this will shape our future" The Guardian, Jan 20, 2022

The Challenges of a Growing Population

With a population exceeding 200 million people, Nigeria is the most populous country in Africa and the 6th most populous in the world. Nigeria has an extremely young population as well, with over 40% aged 14 or younger, and a median age around 18. [4] British colonization of Nigeria ended in 1960 but English remains the official language, giving it a convenient communication runway into the world of global commerce. [5] And the population is only growing. The birth rate in Nigeria is nearly four times the death rate, and the fertility rate is five children per woman; the United Nations expects that by the year 2100, the population of Nigeria will be three to four times what it is today. It's pretty clear that the way things are going, the most populous country in Africa has to find space for a lot more people. This is particularly true in Lagos, the country's capital and most populous city.

Lagos has a lot of people, but just how many people is oddly up for debate. While city officials say there are at least 20 million residents, the United Nations pegs the number at around 15 million. Regardless of which is the right number, everyone agrees the infrastructure is completely incapable of accommodating the current population, much less any additional growth. [6] Public transportation is a mess, with commutes as short as 15 kilometers on one of the 100,000 beaten-up *danfo* buses taking upwards of three hours through the clogged streets. Lagosians spend an average of 30 hours in traffic each week, which translates to over 1,500 hours annually. For perspective, commuters in the bumper-to-bumper rush-hour highways of Los Angeles spend 128 hours on average annually, less than 10% the time of commuters in Lagos. [7] Housing is no better, with half of the city's residents crammed into housing accommodations so sparse and cramped that locals refer to these apartments as "face-me-I-face-you." Part of the reason for the unaffordability is because basic infrastructure like water and sewage, normally provided or subsidized by the government, is in private hands with little government oversight, which has further widened the economic disparity gap.

Given the fact that Nigeria is a democracy, it's tempting to place some amount of blame on the people for electing less competent public officials. But this reasoning is misguided. The country has been a democracy since 1999, but it's hardly the model for this form of government. Freedom House is a US organization devoted to the support and defense of democracy around the world, [8] and it has developed a ranking system based on political rights and civil liberties. On the question of individuals able to exercise the right to own property and establish private businesses without undue interference from state or nonstate actors, it is quite critical of the country: "Nigeria's poorly regulated property rights system hinders citizens and private businesses from engaging in the efficient and legal purchase or sale of property, including land. Bribery is a common practice when starting a business and registering property. However, the climate for private enterprise in recent years has benefited from advancements in credit accessibility, ease of starting a business, ease of paying taxes, and property registration. Women belonging to certain ethnic groups are often denied

[4] CIA World Factbook, 2022 estimate
[5] With the majority of Nigeria's populace in the rural areas, the major languages of communication in the country remain the indigenous languages
[6] "Lagos life overwhelmed by Nigeria infrastructure crisis" Nov 21, 2019
[7] "Employees in Lagos are stressed, burned out and exhausted because of 'hellish' traffic" CNN, Aug 2019
[8] Freedom House's roots go back to the promotion of American involvement in World War II and the fight against fascism. A central figure among its early leaders was First Lady Eleanor Roosevelt. Wendell Willkie, the Republican presidential nominee who ran against President Roosevelt in 1940, was also an ardent supporter and served as honorary co-chair alongside her.

equal rights to inherit property due to customary laws and practices." [9]

This doesn't make for a smooth ride. That said, it's impossible to understate how primed a country like Nigeria is to be a more active and engaged economic player in the midst of all this population growth. But the government's ability to manage this growth is not the only concern investors need to keep in mind when assessing the opportunities of African investment.

Currency Risk

African countries have done a lot of borrowing over the last number of years (although to be fair, Africa's total borrowing pales in comparison to other emerging markets and certainly to other developed markets [10]). China and private lenders in particular have lent a substantial amount of capital across the continent. The Global Development Policy Center at Boston University maintains a map of China's Overseas Development Finance, and its map of Africa is freckled with loans to power, telecom, and transportation projects, in amounts ranging from low double-digit millions to billions (USD). This higher volume of borrowing, plus rising credit spreads post-pandemic that affected all private investor lending, has led to Africa generating "some of the world's highest interest bills associated with external debt. Some 15-20 governments in Africa dedicated the equivalent of 20% or more of their annual revenue to servicing public-sector external debt in 2021. The external debt-service squeeze on public finances is most apparent in the highly leveraged states of Angola, Sudan, Tunisia, and Zambia and uncomfortably high in a longer list of countries including Cameroon, Chad, Djibouti, Ghana, Mauritania, Mozambique, and Senegal. The heavy debt burden on public finances will continue to undermine the ability to channel funds into economic and social development projects and erode the ability to withstand external shocks." [11]

Rising debt burdens combined with other macro, country-specific factors have been contributors to currency volatility and depreciation, and in some cases currency devaluation. Just as interest rates act as a pressure valve to deflate or reflate a domestic economy, currencies act as a pressure valve for one country's economy relative to others. An overheated economy needs higher interest rates to cool it down and forestall inflation (as we're seeing today with great clarity in the US and elsewhere). An expensive-to-access economy needs its currency to cheapen or devalue in order to make the country and its investments more attractive for foreign capital or to foreign buyers of that country's goods. As growth ebbs and flows, it is normal for all economies to go through periods of currency appreciation and depreciation, whether through market norms or deliberate government policy.

Ironically, while cheapening a currency is great for market entrants into that country, it makes investing in companies already denominated in that currency less attractive. The risk is clear for participants based in other countries using their home currency to invest. The returns from

[9] Freedom in the World Report on Nigeria, 2021
[10] "Global Debt Reaches a Record $226 Trillion" IMFBlog, Dec 14, 2021
[11] "Africa feels the strain from elevated debt" Economic Intelligence report from The Economist, May 27, 2022

a highly successful investment could be eaten away once the African currency in which the investment was made is converted back to the home currency, raising the hurdle for investment. Many factors go into the strength of a currency, and the strength of an economy is among them, so this dynamic will be entirely country dependent. No conclusions can be reached about "Africa's currency," as no universal currency exists. But more general stability will necessitate a discipline among government and economic authorities if Africa on the whole wants to compete for investment dollars.

Investment Options: Public vs Private

Investing in Africa requires a variety of smart, tactical decisions. First and foremost there's the country decision, but after deciding where to invest, participants need to decide how to invest. The options most investors will be confronted with are public equities or private equities.

Africa has approximately 1100 publicly listed companies traded across 29 exchanges, with around 60% of them in South Africa, Egypt, and Nigeria. [12] While this presents a lot of different company options, challenges exist for investors wishing to access the growth of Africa through public equities. First, liquidity. The majority of exchanges in the continent have liquidity levels below 1%, with only two exchanges recording levels over 10% (as of May 2020) – Egypt at 48% and Johannesburg at 45%. [13] Second, many of the more-liquid companies derive a far more significant percentage of revenues from outside Africa, which means investors may be betting less on African growth and more on growth outside of the continent. Finally, some of the more interesting and potentially higher-growth sectors like healthcare, tech, retail, and private education don't have many public equity options. While areas like metals and mining, energy, and food and beverage are well-represented, this leaves out a lot of interesting sectors that would more directly benefit from the population boom coming to the continent in upcoming decades. Those higher-growth sectors are more prevalent in African private equity, where the multi-year timeline for investment can be more accommodating to some of the risks of investing in the region. In addition, African consumers will be growing up in a wireless and mobile-driven world, which introduces a range of next-generation companies not well-represented in public equities today.

Private equity investors are clearly starting to take notice. According to the African Private Equity and Venture Capital Association, 2021 was a record year in terms of both volume and value, with venture capitalists putting more money to work in Africa in 2021 than the preceding seven years combined. In total, $5.2 billion (that's US dollars) was raised from 604 unique companies in 2021, with the top destinations Nigeria, South Africa, Egypt, Kenya, and Ghana. Approximately 80% of VC deals in 2021 were in technology or technology-enabled companies operating across a variety of sectors, and perhaps most impressively, almost a quarter of all venture investments in Africa in 2021 were in startups with a female founder or multiple founders including at least one female. [14]

[12] TheGlobalEconomy.com: Business and Economic Data for 200 Countries
[13] "Understanding Stock Market Liquidity in African Exchanges" Further Africa, July 31, 2020
[14] "Venture Capital in Africa Report" African Private Equity and Venture Capital Association, April 2022

Given women's prolific role in African society – they produce close to 80% of the food, support 40% of the families, and comprise close to 90% of the informal economy in sub-Saharan Africa [15] – this number should be higher, but it crushes the embarrassingly low single-digit comparables in Western economies.

Whether investors take a public or private equity approach – and we think exposure to both strategies makes prudent sense – it's vital to be invested with managers who have a local presence. There are too many micro and macro dynamics to consider when investing on the continent, and so adequate due diligence is unlikely without boots on the ground. Experience in the region is vital, and having a network is extremely valuable as well, as this increases the likelihood of gaining access to more-attractive investment opportunities and trusted information flow. Risk mitigation can't be emphasized enough, and that requires knowing as much as possible about what can go wrong before an investment is made.

An Opportunity For the Taking

In 1982, the band Toto released its fourth studio album, appropriately named Toto IV. It won six Grammy Awards, including the award for Record of the Year, which went to the album's lead single and opening track, "Rosanna." Artists seldom put the same faith in the final track as they do in the lead, and the same was true in this case. In fact, the tenth and last song on the album – "Africa" – was the last song recorded and almost didn't make the cut at all. Even the most casual listener of popular music over the last 40 years knows that it became not only a massively successful song upon its release, but a radio and streaming juggernaut whose popularity continues to this day. The band's initial faith in the song is a perfectly appropriate metaphor for how the continent of Africa is viewed by most investors. It's the last region on many of their minds, but one that has the potential to emerge in a way that many other regions around the world do not.

When considering the opportunities that accompany the kind of growth expected going forward, it would be a mistake to ignore the potential of Africa. There are certainly problems, and some of these problems will persist, but many companies are intent on developing solutions. Governmental authorities will hopefully do their part to create an environment that fosters opportunities, but despite the friction some of these governments will almost certainly create, the tide of consumerism will be overwhelming in the coming decades, and investors would be wise to not only pay attention, but participate. Despite its issues, the continent – and its potential – is not going anywhere. It's waiting there for you to find it.

[15] "Unleashing Women's Entrepreneurship Through Strategic Partnerships" Africa Development Bank, 2019