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# Promise and Perils: Scaling up businesses in sub-Saharan Africa

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## About this research

*Promise and perils: Scaling up businesses in sub-Saharan Africa* is an Economist Intelligence Unit report, sponsored by Dubai Chamber of Commerce and Industry. The report examines the factors enabling businesses in sub-Saharan Africa (SSA) to scale up. We consider the policy environment, state of technology and infrastructure, and financing options that allow businesses to access markets in other countries on the continent and beyond. In addition, it explores the role of foreign investors in facilitating business expansion, focusing on those based in the Gulf Co-operation Council (GCC) countries.<sup>1</sup>

This report combines extensive desk research, data analysis and insights from interviews. We conducted in-depth interviews with executives at businesses in SSA across fintech, energy, hospitality and consumer goods that have successfully expanded across countries. In addition, we interviewed investors in Africa and the GCC. The interviews were conducted in April and May 2019.

Our sincerest thanks go to the following participants (listed alphabetically) for their time and insights:

- **Alexandre Allegue**, chairman, Pawame
- **Michelle Essomé**, CEO, African Private Equity and Venture Capital Association
- **Guy Hutchinson**, acting CEO, Rotana
- **Wesley Lynch**, CEO and founder, Snapplify
- **Magellan Makhoulf**, co-founder and managing director, CedarBridge
- **Pat McMichael**, CEO, Eat'n'Go
- **Paloma Pineda**, co-founder, Ethical Apparel Africa
- **Sacha Poignon**, co-founder and co-CEO, Jumia
- **Keren Pybus**, co-founder, Ethical Apparel Africa
- **Emmanuel Quartey**, head of growth, Paystack
- **Tejas Shah**, regional vice-president, development, sub-Saharan Africa, Hyatt
- **Ashish Thakkar**, CEO, Mara Phones
- **Hani Weiss**, CEO, Majid Al Futtaim Retail

Adam Green is the author of the report and Melanie Noronha is the editor.

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<sup>1</sup> The GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

## Executive summary

The rise and fall of interest in Africa has been contingent on its promise for growth. The demographic advantage and increasing per-head income spur investors but the regulatory complexities and political risks they encounter turn sentiment. Businesses on the continent are innovative and eager to expand but this is often impeded by limited access to new markets and growth finance. Delivering on the promise of economic growth is closely tied to the ability of home-grown businesses to scale up, so policymakers must establish an environment that enables businesses to thrive.

In this report, we explore a range of policies, technologies, infrastructure projects and financing options that are enabling business in SSA to scale up. Some of these are the efforts of local governments and regional organisations but there is also significant involvement from foreign investors and businesses. This report specifically explores perspectives of investors based in the GCC.

### Key findings of this report:

**Policies for regional integration are helping African businesses gain greater access to other markets.** Some regional economic communities, such as the East Africa Economic Community, are allowing the free movement of people and goods, facilitating trade. The Single African Air Transport Market is expected to strengthen air links, driving tourism and business travel. Among the most ambitious is the African Continental Free Trade Agreement, committed to removing tariffs on 90% of goods, progressively liberalising trade in services, and addressing non-tariff barriers. Some policies are also easing operational challenges; the most noteworthy are those enabling international

money transfers and payments. Combined, these allow African small and medium-sized enterprises (SMEs) to expand operations across markets, creating attractive opportunities for investors too.

**Expanding telecommunications networks are facilitating the growth of internet connectivity, mobile money and new digital services that build on it.** Mobile money, which facilitates money transfers and payments, is also a growth enabler as it moves into business lending. Wider and better internet connectivity will drive the next wave of technological innovation, enabling companies to develop new, digital services for consumers on the continent. By 2025 3G mobile network coverage is expected to account for 61% of the mobile phone connections.

**Progress in transportation projects are improving physical connectivity within and between countries in Africa and driving operational efficiencies.** These promise to give businesses access to markets that were previously out of reach. Stronger energy networks will deliver a more reliable supply of electricity, driving efficiencies and reducing business costs.

**Foreign companies with expertise in infrastructure development and emerging technologies are capitalising on Africa's scaling-up potential.** Companies such as the UAE's Etisalat and India's Bharti Airtel are facilitating the much-needed expansion of telecommunications networks. The improvement in internet connectivity that this delivers is spawning a host of digital start-ups that can access new consumers online. International infrastructure construction

companies and operators from China and the GCC have identified opportunities to participate in critical infrastructure development projects in Africa too.

**High interest rates offered by domestic banks are a perennial problem for businesses seeking growth finance.**

**Alternative sources such as venture capital (VC), private equity (PE), development finance institutions and even crowdfunding have been more appealing.** PE firms closed deals worth US\$25bn across Africa between 2013 and 2018, while VC firms recorded deals worth US\$725m in 2018, growing almost fourfold from 2017. PE is particularly relevant, as it tends to focus on more established firms looking to scale up. VC firms, which often finance companies at a nascent stage, tend to pursue higher growth rates. With both, there is a risk of a forced exit. Yet, both represent an important pool of finance for businesses hungry for growth.

**Corporations are fuelling African business expansions, through direct stakes and VC funds.** Prominent global players include Tencent and Mastercard as well as African corporations such as MTN, proving that blue chip brands still believe in Africa's growth story. Offering more examples of successful scale-ups in Africa will encourage more investors to seize on the opportunities of the continent.

**Gulf investment is concentrated in East Africa, with the UAE leading the charge.**

The UAE is among the top ten source countries for foreign direct investment in SSA, investing US\$649m between 2015 and early 2019. PE and VC have been limited as some investors find that deals on the continent are overpriced. Gulf investors must work with a longer time horizon in mind, according to the experts interviewed, evidenced by examples from a range of Gulf-based businesses such as DP World in port infrastructure, Etisalat in telecommunications, Acwa Power in energy and Salalah Mills in food processing.

## Introduction

The post-millennium growth surge in sub-Saharan Africa (SSA) drew in a flurry of foreign investors seeking a new emerging market to follow the Asian boom. Countries on the continent regularly appeared on the list of the fastest-growing economies globally between 2000 and 2014, the heyday of the “Africa rising” period.<sup>2</sup> International brands across sectors from the Americas, Europe and China talked up their plans for Africa. But by 2016 the sentiment turned following a dip in commodity prices, sluggish job creation, macroeconomic challenges like rising debt and inflation, and a lack of economic diversification.

A modest recovery is now afoot, with SSA’s real GDP growth returning to 3% in 2018, from 1.4% in 2016,<sup>4</sup> thanks to falling inflation

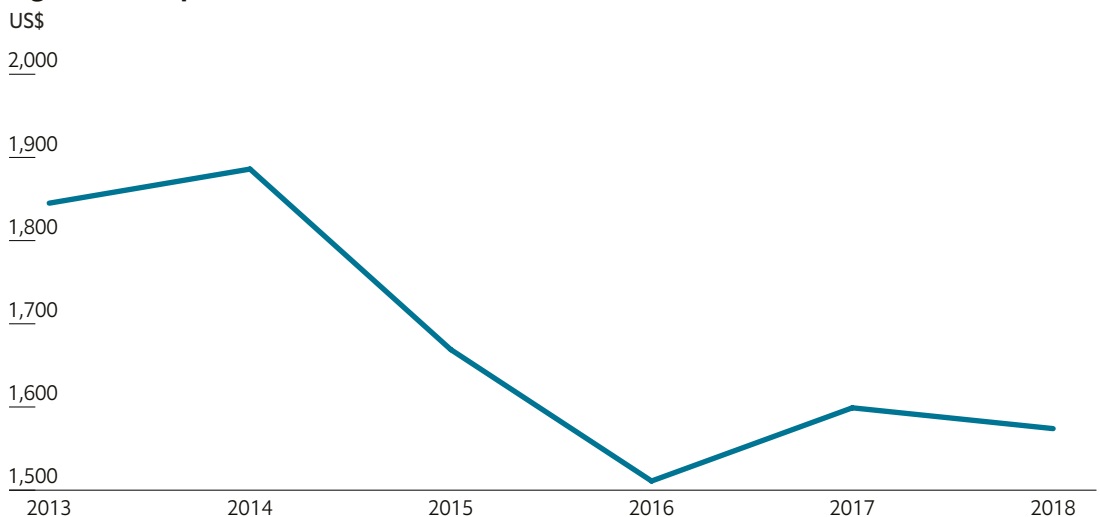
**A modest recovery is now afoot.**  
**Sub-Saharan Africa’s real GDP growth:**



and recovering commodity prices. But this remains below past peaks and is inadequate to keep pace with the continent’s expanding population.<sup>5</sup>

Business growth is crucial to achieving a high and sustained new growth cycle, underpinned by the ability of home-grown companies to scale within and across their borders. To date, the business landscape has been split between two groups. On the one hand, there

**Figure 1: GDP per head in sub-Saharan Africa, 2013-18**



Source: World Bank<sup>3</sup>

<sup>2</sup> The Brookings Institution, “Foresight Africa”, 2018, [https://www.brookings.edu/wp-content/uploads/2018/01/foresight-2018\\_full\\_web\\_final2.pdf?mc\\_cid=628fd74c1c&mc\\_eid=f32c014688](https://www.brookings.edu/wp-content/uploads/2018/01/foresight-2018_full_web_final2.pdf?mc_cid=628fd74c1c&mc_eid=f32c014688)

<sup>3</sup> World Bank, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2017&locations=ZG&start=2013>

<sup>4</sup> IMF World Economic Outlook, April 2019, <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx>

<sup>5</sup> African Private Equity and Venture Capital Association, “2018 Annual African Private Equity Data Tracker”, <https://www.avca-africa.org/research-publications/data-reports/2018-annual-african-private-equity-data-tracker/>

<sup>6</sup> <http://www.enterprisesurveys.org/Custom-Query>

are large operators in sectors like tourism, natural resources and banking. On the other, there are a shoal of microenterprises that struggle to grow in a challenging operational environment. The latter is marked by limited cross-border trade, weak infrastructure and inadequate access to finance. Specifically, according to a World Bank survey, the biggest obstacles facing businesses in SSA are access to finance, access to electricity and practices of the informal sector.<sup>6</sup>

Despite these, there are a few companies that have been able to break through. The recent initial public offering (IPO) of Jumia, an e-commerce platform dubbed “Africa’s Amazon”, on the New York Stock Exchange marked a milestone. Venture capital (VC) is rising too. African start-ups enjoyed an almost fourfold increase in VC funding in 2018 compared with 2017. Global titans such as Tencent and Visa have bought into fintech, and others are betting on sectors like entertainment and ride-hailing.

Beyond finance, regulatory reforms are enabling new businesses to set up and trade across borders. SSA has recorded the highest number of reforms each year since 2012, according to the World Bank’s Doing Business 2019 report.<sup>7</sup> The African Continental Free Trade Area, which came into force in May 2019, is expected to facilitate greater economic integration across the continent over the next decade. The expansion of transport infrastructure and the falling



### **Developments in finance, technology and infrastructure are taking place with the support of foreign businesses and investors, primarily from China, the US, the UK, France and the UAE.**

costs of technology—from mobile phones to renewable energy—are further enabling businesses to scale.

Some of these developments in finance, technology and infrastructure are taking place with the support of foreign businesses and investors, primarily from China, the US, the UK, France and the UAE.<sup>8</sup> They are involved in financing (private equity, or PE, and VC); developing road, rail and port infrastructure; and expanding telecom networks, among others.

Can these interlocking trends help put Africa on a sustained growth path and ensure its brightest companies can grow? This report maps out the enabling environment that is helping Africa’s fast-growing companies on their journey. As part of this, we examine the role that businesses and investors can play in scaling up Africa’s companies, focusing on the GCC—the region closest geographically to most parts of SSA, with investment links that have yet to be fully developed.

<sup>7</sup> World Bank Group, “Doing Business 2019”, [http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report\\_web-version.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf)

<sup>8</sup> fDi Intelligence (2015-2019)



## Chapter one: Improving connectivity

An African start-up or small and medium-sized enterprise (SME) today has a better chance at growth than ever before thanks to the improving quality and falling cost of technologies, improving physical infrastructure, stronger policies, and regulation—including regional harmonisation



**There is major work being done behind the scenes to improve infrastructure, energy security and the regulatory landscape, which we believe will support the delivery of Africa's potential.**

*Guy Hutchinson, acting CEO, Rotana*

and business environment reforms. “There is major work being done behind the scenes to improve infrastructure, energy security and the regulatory landscape, which we believe will support the delivery of Africa’s potential,” says Guy Hutchinson, acting CEO of Abu Dhabi-based hotel group Rotana, which has properties in Tanzania, Sudan and the Democratic Republic of Congo (DRC). In this chapter, we discuss the most noteworthy enabling policies, technologies and infrastructure in SSA.

### **Policies for regional integration**

For companies to truly scale, the continent’s fragmented regulatory landscape needs to be tackled—including cross-border trade rules, non-tariff barriers, customs processes and commercial bureaucracy. More than half





of the countries in SSA rank in the bottom 70 (out of 190 countries) in the World Bank's Doing Business 2019 ranking for "trading across borders".<sup>9</sup> DRC, Cameroon, Tanzania and Nigeria are among the largest economies that fare poorly on this front. Regional integration policies are helping to provide greater access to other markets and improve the operational environment.

Across the continent, SSA's seven regional economic communities and the African Union itself, are leading the push for integration.<sup>10</sup>

<sup>11</sup> The East African Community (EAC) has progressed furthest and fastest, implementing a free-trade area (FTA), customs union and single market, increasing exports from members.<sup>12, 13</sup> The EAC allows the free movement of labour for citizens across three of its five member states, with plans for a regional electronic passport.<sup>14, 15</sup> The East African tourist visa, launched in 2014, allows visitors to the region's safaris, beaches and hotels to move freely between Rwanda, Uganda and Kenya.<sup>16</sup> Two other blocs in the southern and eastern parts of Africa also have FTAs, and have agreed to create a single enlarged market through a Tripartite Free Trade Area.<sup>17, 18</sup>

Policy integration efforts are also happening pan-continently, and 2018 was a turning point. First was the African Union's Single African Air Transport Market initiative, which aims to enhance connectivity and reduce airfares between African nations.<sup>19</sup> Tejas Shah, regional vice-president for SSA at Hyatt, a hospitality group, says reforms like the open sky initiative are "key drivers for growth, bringing a lot more connectivity within the continent and more integration in business and tourist inflows." Governments are also liberalising travel and visa policies. Mr Shah points to Rwanda, Ethiopia and Kenya as leaders here. Combined, these efforts could boost African tourism and sub-segments like exhibitions and conferences.

**Through the African Continental Free Trade Area (ACFTA), signatory countries have committed to removing tariffs on 90% of goods, progressively liberalising trade in services and addressing non-tariff barriers.**

<sup>9</sup> <http://www.doingbusiness.org/en/data>

<sup>10</sup> World Economic Forum, "The African Union is on a mission to transform the continent by 2063. This is what you need to know", May 5th 2017, <https://www.weforum.org/agenda/2017/05/the-african-union-is-on-a-mission-to-transform-the-continent-by-2063-this-is-what-you-need-to-know/>

<sup>11</sup> UN, Office of the Special Adviser on Africa, "The Regional Economic Communities (RECs) of the African Union", <https://www.un.org/en/africa/osaa/peace/recs.shtml>

<sup>12</sup> [https://www.uneca.org/sites/default/files/PublicationFiles/aria8\\_eng\\_fin.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/aria8_eng_fin.pdf)

<sup>13</sup> The Economist Intelligence Unit, "East African Community's trade conundrum", September 15th 2017, <http://country.eiu.com/article.aspx?articleid=665893450>

<sup>14</sup> UNECA, African Union Commission and the African Development Bank, "Assessing Regional Integration in Africa", 2017, [https://www.uneca.org/sites/default/files/PublicationFiles/aria8\\_eng\\_fin.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/aria8_eng_fin.pdf), p15

<sup>15</sup> The East African, "East African passports among weakest worldwide", January 12th 2019, <https://www.theeastafrican.co.ke/news/ea/East-African-passports-among-weakest-worldwide/4552908-4931988-u95bdj/index.html>

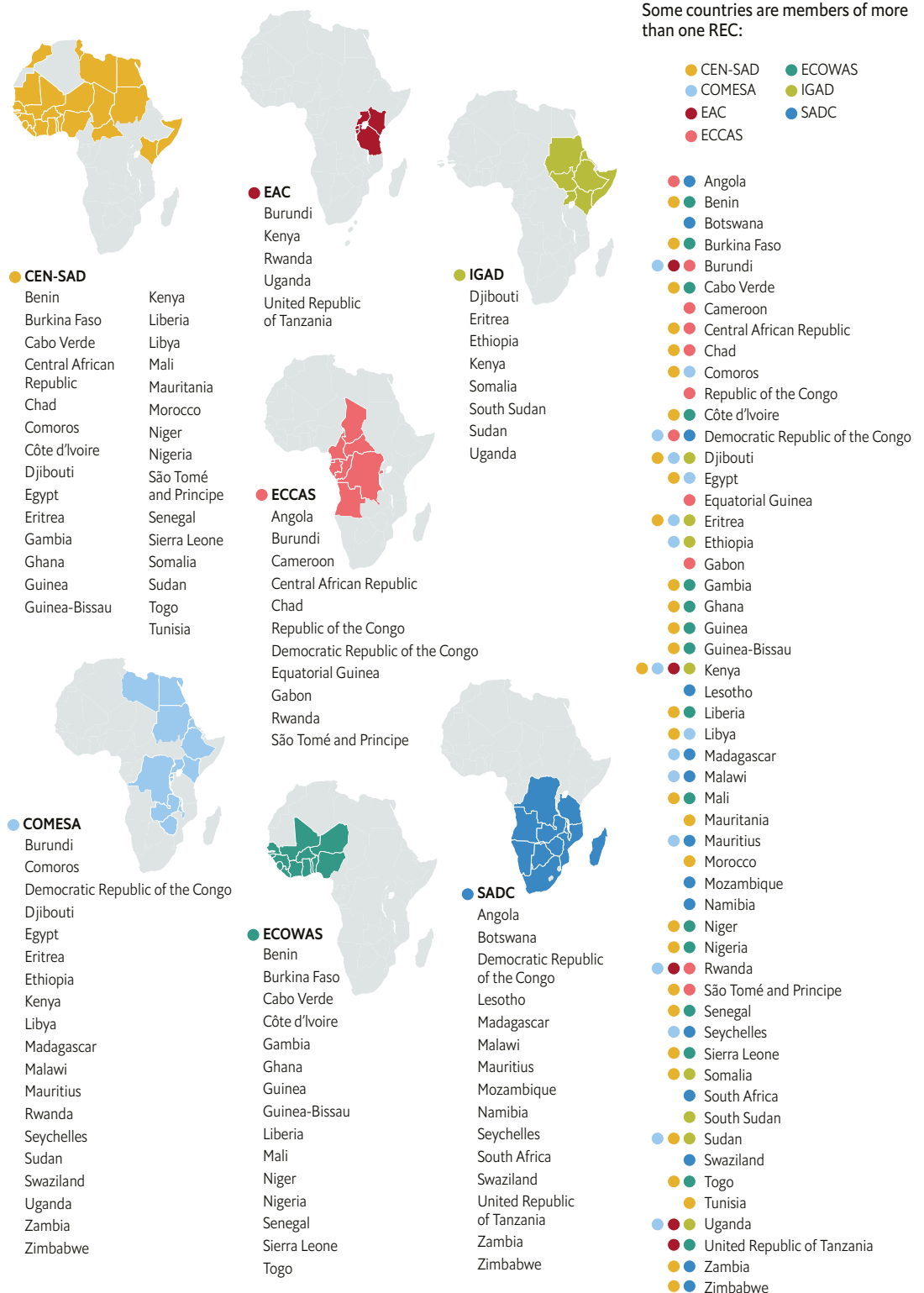
<sup>16</sup> DW, "Opinion: East African Community unity hangs in balance", December 24th 2018, <https://www.dw.com/en/opinion-east-african-community-unity-hangs-in-the-balance/a-46745124>

<sup>17</sup> UNECA, African Union Commission and the African Development Bank, "Assessing Regional Integration in Africa", 2017, [https://www.uneca.org/sites/default/files/PublicationFiles/aria8\\_eng\\_fin.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/aria8_eng_fin.pdf), p15

<sup>18</sup> UNECA, African Union Commission and the African Development Bank, "Assessing Regional Integration in Africa", 2017, [https://www.uneca.org/sites/default/files/PublicationFiles/aria8\\_eng\\_fin.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/aria8_eng_fin.pdf)

<sup>19</sup> Quartz, African countries have taken the first major step towards cheaper continental flights", January 29th 2018, <https://qz.com/africa/1191558/african-union-launches-single-african-air-transport-market/>

**Figure 2: Regional economic communities in Africa**



Source: [http://www.uneca.org/sites/default/files/PublicationFiles/arii-report2016\\_en\\_web.pdf](http://www.uneca.org/sites/default/files/PublicationFiles/arii-report2016_en_web.pdf)

**The ACFTA would create a single market with:**



The second policy integration push in 2018 was the African Continental Free Trade Area (ACFTA), through which, as of July 2019, 54 signatory countries committed to removing tariffs on 90% of goods, progressively liberalising trade in services and addressing non-tariff barriers. In April 2019 the ACFTA gained the 22 ratifications required to enter into force.<sup>20</sup> If the entire continent were to implement the deal, it would create a single market of over a billion consumers with a total GDP of over US\$3trn.<sup>21</sup> Data show that cutting trade costs would make a significant difference to growth in the region. Eliminating import duties between African countries alone would increase regional trade by a third, according to UNCTAD.<sup>22, 23</sup>

Trade harmonisation must include a focus on non-tariff barriers (NTB) too. “We occasionally have to move material across the Ghana-Benin border by land,” says Paloma Pineta, co-founder of Ethical Apparel Africa, a garment sourcing agency. “The duty-free agreement holds but clearance costs are really high. For a 20-ft container, having to

pay US\$1,500 or US\$2,000 for clearing, with all the documentation, is pretty significant for our business”. Estimates show GDP benefits of US\$31bn could be reaped by implementing WTO best practices for trade facilitation.<sup>24</sup> Under their Tripartite Free Trade Area, COMESA, EAC and SADC have established monitoring mechanisms for NTBs, including a website allowing traders to flag problems. Almost 600 NTB disputes (out of 663 registered complaints) have been resolved through the platform.<sup>25</sup> ACFTA also aims to establish an Africa-wide mechanism for reporting, monitoring and eliminating NTBs.<sup>26</sup>

There are other policies that provide access to markets outside the African continent, making it feasible for businesses to scale up. Ethical Apparel Africa cites in particular the African Growth and Opportunity Act (AGOA), a long-standing preferential trade deal between the US and Africa. This factored into their decision to choose Ghana as a base, given its position

**Under their Tripartite Free Trade Area, COMESA, EAC and SADC have established monitoring mechanisms for non-tariff barriers, including a website allowing traders to flag problems.**

<sup>20</sup> East African Business Week, “The African Continental Free Trade Area - More Hills to Climb”, April 5th 2019, <https://www.busiweek.com/the-african-continental-free-trade-area-more-hills-to-climb/>

<sup>21</sup> ECDPM, FERDI and ACET, “Working with the grain of African Integration”, 2018, <http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/bn-106-working-with-the-grain-of-african-integration-2.pdf>

<sup>22</sup> The Economist, “Forty-four African countries sign a free-trade deal”, March 22nd 2018, <https://www.economist.com/middle-east-and-africa/2018/03/22/forty-four-african-countries-sign-a-free-trade-deal>

<sup>23</sup> World Bank Group, “Supporting Africa’s transformation: regional integration and cooperation assistance strategy”, May 7th 2018, <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>

<sup>24</sup> AfDB, “Integration for Africa’s economic prosperity”, [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO\\_2019-EN-CHAP3.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN-CHAP3.pdf)


<sup>25</sup> COMESA, SADC and EAC, Non-Tariff Barriers, <https://www.tradebarriers.org/>

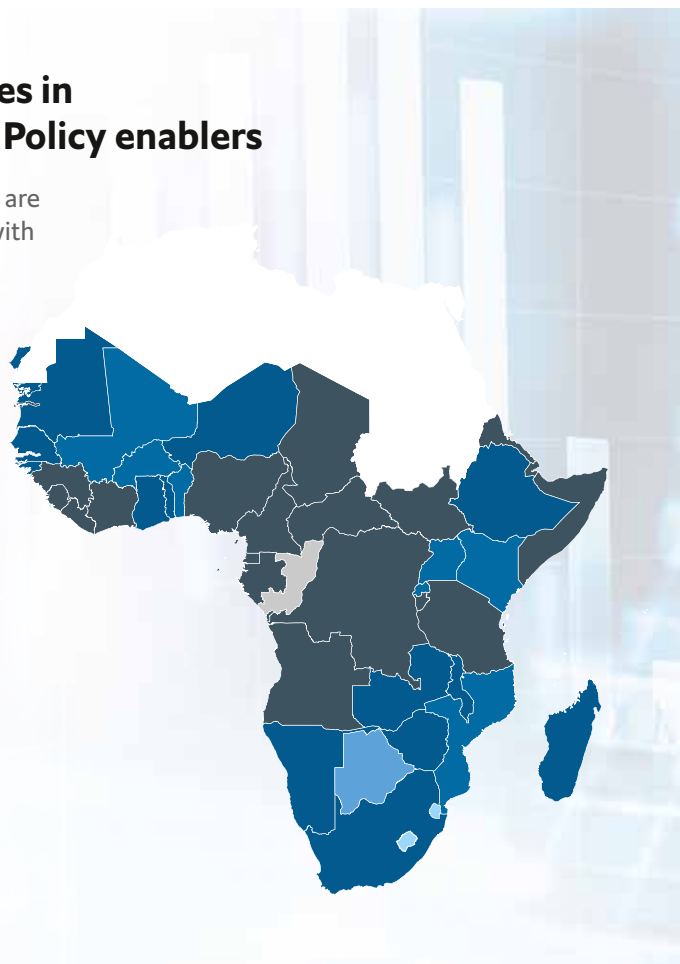
<sup>26</sup> UNCTAD, “Project tackles non-tariff barriers in Africa”, March 1st 2019, <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2022>

## Scaling-up businesses in sub-Saharan Africa: Policy enablers

Policies for regional integration are helping to address challenges with trading across borders.

 African Continental Free Trade Area

 Single Africa Air Transport Market



Sources: IATA; World Bank Doing Business Index

on the West coast. “By having AGOA in place [which eliminates certain trade duties and quotas], you’ve got a 16-30% cost advantage that compensates for the lower efficiency in Africa,” says Ms Pineta. She also cites support from donors in capacity-building, including the German and UK development agencies, helping the company and its factory partners to grow their businesses.

While regional economic communities and policies such as the AGOA give businesses access to new markets beyond their home country, other policies ease operational challenges. Proposals from the West Africa Monetary Zone to create a common currency,

the Eco, by 2020<sup>27</sup> could improve monetary stability and eliminate exchange-rate volatility, a concern that executives we interviewed highlighted.

Streamlining payment systems is yet another approach. The most successful example comes from SADC, where the Integrated Regional Electronic Settlement System settles transactions for 82 participating banks in 14 countries.<sup>28</sup> Furthermore, by supporting the growth of the fintech industry, businesses can deliver solutions to address payments challenges. The Central Bank of Nigeria, explains Emmanuel Quartey, head of growth at Paystack, an online payments gateway,

**In the SADC, the Integrated Regional Electronic Settlement System settles transactions for**



has issued licences to fintech firms, enabling a range of fintech innovation including for payments and international money transfers. He also cites as helpful Ghana's Payments Systems and Services Act, which provides a framework for governing digital financial services,<sup>29</sup> and a recently introduced quality of service regulation from the National Communications Authority for mobile money and digital financial services.

### Tech-fuelled growth

Business growth is inseparable from technology, and innovations in fintech, telecommunications and mobility are helping companies provide new products and services to people they were previously unable to access.

The expansion of the telecommunications network is facilitating the growth of mobile money and the services that build on it. In addition to the efforts of African providers

such as MTN, Safaricom and Vodacom, the sector has received investment from international players too. India's Bharti Airtel operates mostly in the central, eastern and southern parts of SSA and UAE's Etisalat in the western and central parts. Specifically, Etisalat has made direct investments in local telecom providers such as Moov, Onatel, Sotelma and Gabon Telecom, generating revenue of roughly US\$3.7bn in 2018.<sup>32</sup> In Benin, Etisalat facilitated the launch of Moov Money, expanding access to contactless payments and QR code technologies. As the Ethiopian telecommunications sector opens up to foreign investors, Etisalat is among the potential entrants.

Wider internet connectivity will drive the next wave of technological innovation. As of 2017, only 22% of the population in SSA use the internet.<sup>33</sup> Widening 3G mobile network coverage will be pivotal: on average, more than 90% of the population have 2G coverage;

**In addition to the efforts of African telecommunication providers, the sector has received investment from international players too such as India's Bharti Airtel and UAE's Etisalat.**

<sup>27</sup> World Bank Group, "Supporting Africa's transformation: regional integration and cooperation assistance strategy", May 7th 2018, <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>

<sup>28</sup> South African Reserve Bank, "An address by Francois Groepe, Deputy Governor of the South African Reserve Bank, at the National Payment System Department's annual end-of-year cocktail function", November 5th 2018, <https://www.bis.org/review/r181108b.pdf>

<sup>29</sup> <http://www.ghana.gov.gh/index.php/media-center/news/5738-payment-systems-and-services-act-to-boost-ongoing-digitisation>

<sup>30</sup> *Business Daily Africa*, "KCB M-Pesa users to get top up loans", December 18th 2018, <https://www.businessdailyafrica.com/corporate/companies/KCB-M-Pesa-users-to-get-top-up-loans/4003102-4901178-ni6mjz/index.html>

<sup>31</sup> Financial Times, "Kenya-focused fintech lender Tala raises \$65m to fund expansion", <https://www.ft.com/content/c7fb73b0-4250-11e8-93cf-67ac3a6482fd>

<sup>32</sup> Etisalat, Annual Report 2018, <https://www.etisalat.com/en/system/docs/2019/Etisalat-Group-Annual-Report-2018-English.pdf>

**61%** Percentage of 3G connections in sub-Saharan Africa by 2025 

by 2025, 3G is expected to account for 61% of the connections (see figure 4).<sup>34</sup>

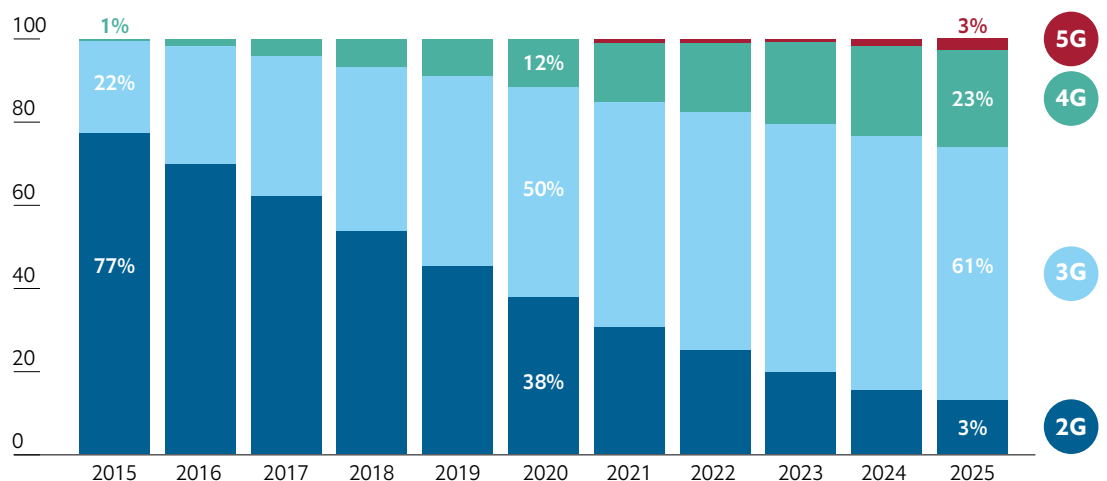
Better internet quality will enable companies to develop new, digital services for consumers on the continent too. It has been a prerequisite for companies such as Jumia, an e-commerce platform, to exist. Looking ahead, co-founder and co-CEO, Sacha Poignonnec says, “what I would say is really helping, is

when the networks get an upgrade. We have lot of mobile users and internet speed is a very important feature. It makes a difference if a page opens in one second or in five.”

Cloud computing, mobile money and innovations like on-demand streaming are being adapted by local companies, enabling the emergence of indigenous players like iRokoTV, the “Netflix of Africa”. The success of copy-cats like Alibaba proved that companies do not have to invent a new business entirely; they can do very well by adapting an innovation from elsewhere and calibrating it for the local market. Deepening connectivity also creates pools of expertise

**Figure 3: The transition to broadband, 2015-25**

Percentage of connections



Source: The mobile economy, sub-Saharan Africa 2018, GSMA<sup>35</sup>

that companies tap to ramp up. One example is the community of developers building plugins for platforms like WordPress, Shopify

and OpenCart, who are making it easier to integrate payments platforms. “Before, you needed to pay a fair amount of money

<sup>33</sup> World Bank, [https://data.worldbank.org/indicator/it.net.user.zs?most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/it.net.user.zs?most_recent_value_desc=true)

<sup>34</sup> GSMA, “The Mobile Economy Sub-Saharan Africa 2018”. <https://www.gsmaintelligence.com/research/?file=809c442550e5487f3b1d025fdc70e23b&download>



## Better internet quality will enable companies to develop new, digital services for consumers on the continent.

to integrate local payment systems with a company's APIs [application programming interfaces]," says Mr Quartey of Paystack.

Improvements in other technology domains are also helping companies to scale, such as the falling price point of solar panels, batteries and components which, combined with mobile penetration, is helping Africa's thriving off-grid energy sector. "You now have the ingredients which allow our model to work, whereas ten years ago it would not, or was too niche," says Alexandre Allegue, chairman of Pawame, UAE-based energy start-up focused on Kenya.<sup>35</sup>

## Expanding networks: Road, rail, water and energy

Paving roads, building railways and providing cheaper power cut the costs of doing business and improves access to markets further away from home. But Africa's road, air, energy, rail and water infrastructures are weak within and between countries, which has complicated business expansion in the past. Thankfully, after much neglect, there are signs of progress.

Regional road infrastructure projects include the Abidjan-Lagos Corridor, the

North-South Multi-Modal Corridor and the Central Corridor. Private financing is flowing into initiatives like the Multi-Modal Maputo Corridor, and the Nacala Corridor rail and port development.<sup>37</sup> From the GCC region, UAE's DP World is developing and operating ports in Somalia, Senegal, Mozambique and a logistics centre in Rwanda, facilitating exports from domestic businesses to surrounding areas and thus an expansion of their operations. Construction contractors have been active in developing transport infrastructure too; a prominent example is Saudi Binladin Group's construction of the airport in Senegal's capital.

Kuwait logistics company Agility and UAE-based retailer Lulu Group are also bringing their expertise to Africa and establishing storage facilities and logistics centres.<sup>38, 39</sup> Agility's strategy to set up facilities on the outskirts of large cities in Ghana, Mozambique, Côte d'Ivoire and Nigeria will be particularly beneficial for e-commerce companies in SSA, which rely on an efficient delivery system.

The rail system, for years defunct, is also improving. The continent's first fully electrified railway arrived in 2018—the US\$2.5bn Chinese-built Djibouti-Ethiopia line—and China has upgraded Kenya's Nairobi-Mombasa railway.<sup>40, 41</sup> Rwanda and Tanzania will shortly begin construction of a separate US\$2.5bn railway linking the two countries.<sup>42</sup> Water infrastructure collaboration is advancing too, with the Nile Basin countries<sup>43</sup> pursuing a

<sup>35</sup> Ibid

<sup>36</sup> *The National*, "UAE solar start-up Pawame secures \$2m in seed funding", March 5th 2018, <https://www.thenational.ae/business/energy/uae-solar-start-up-pawame-secures-2m-in-seed-funding-1.710159>

<sup>37</sup> World Bank Group, "Supporting Africa's transformation: regional integration and cooperation assistance strategy", May 7th 2018, <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>

<sup>38</sup> Freight Waves, "Logistics Group Agility reports US\$1.25 billion of revenues", May 13th 2019, <https://www.freightwaves.com/news/logistics-group-agility-reports-us1-25-billion-of-revenues>

<sup>39</sup> Logistics Middle East, "UAE retailer Lulu Group to establish Nigerian logistics hub for GCC export", April 14th 2019, <https://www.logisticsmiddleeast.com/supply-chain/32479-uae-retailer-lulu-group-to-establish-nigerian-logistics-hub-for-gcc-export>

<sup>40</sup> *The Guardian*, "In Ethiopia's bushlands, promised riches of a railway boom turn to dust", May 12th 2018, <https://www.theguardian.com/global-development/2018/may/12/ethiopia-railway-boom-promises-turn-to-dust>

<sup>41</sup> *The East African*, "East Africa's joint mega railway project at the crossroads", January 28th 2019, <https://www.theeastafrican.co.ke/business/East-Africa-joint-mega-railway-project-at-the-crossroads/2560-4954932-6la96xz/index.html>

<sup>42</sup> *The East African*, "Building of Isaka-Kigali railway to start in December", October 29th 2018, <https://www.theeastafrican.co.ke/business/Building-of-Isaka-Kigali-railway-to-start-in-December/2560-4827162-aucmq0/index.html>

<sup>43</sup> The Nile Basin countries include Burundi, Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, South Sudan, The Sudan, Tanzania and Uganda

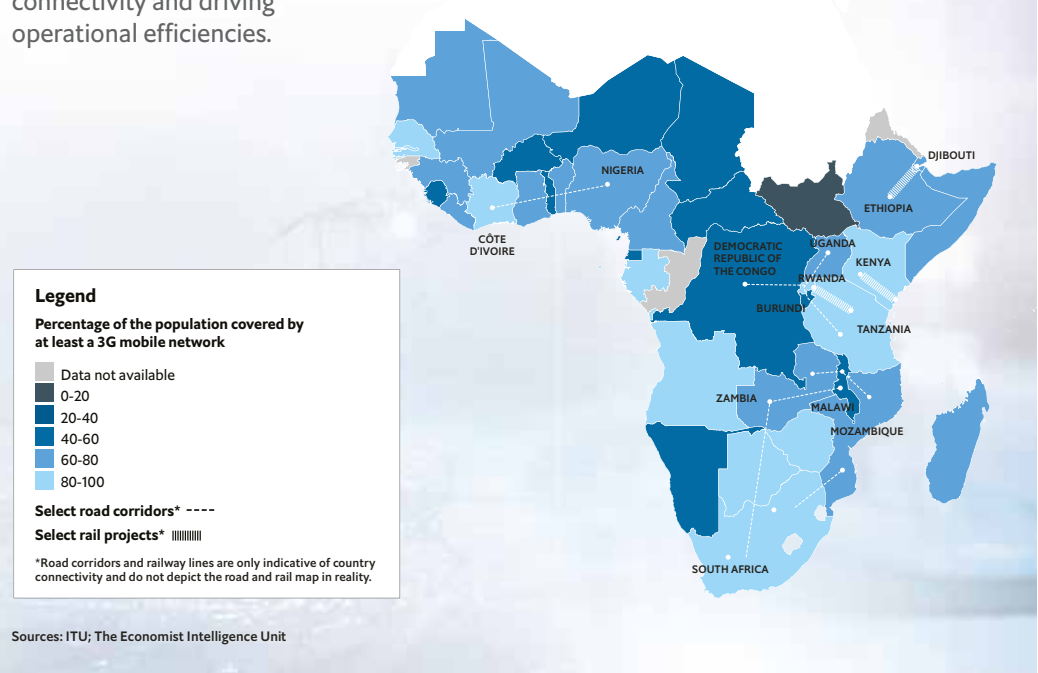
“navigational line” between Lake Victoria and the Mediterranean, to integrate river, rail and road transport along the Nile by 2024.<sup>44</sup>

Last but not least, countries are beginning to integrate their energy systems through initiatives like the Eastern Africa Power Pool<sup>45</sup> and the Western Africa Power Pool (by 2020, participant countries are expected to be able to buy and sell electricity).<sup>46, 47, 48</sup> The Zambia-Tanzania-Kenya Interconnector project will conjoin the southern and eastern

African power pools and enhance inter-regional electricity trading, creating the largest power pool on the continent. Moreover, Saudi-based Acwa Power is developing three energy projects with roughly 300 MW of coal power and 150 MW of solar power, the latter contributing towards the renewable energy goals of the continent. Giving businesses and consumers access to a reliable source of electricity at a lower cost can drive efficiencies and could substantially aid business growth.

## Scaling-up businesses in sub-Saharan Africa: Technology and infrastructure enablers

Infrastructure projects and expanding telecommunication networks are improving connectivity and driving operational efficiencies.



<sup>44</sup> NEPAD, “Construction of Navigational Line between Lake Victoria and the Mediterranean Sea”, <https://www.nepad.org/construction-navigational-line-between-lake-victoria-and-mediterranean-sea>

<sup>45</sup> *The East African*, “Phase One of regional power pool project set for completion by mid-2019”, August 6th 2019, <https://www.theeastafrican.co.ke/business/Phase-One-of-regional-power-pool-project-set-for-completion/2560-4699790-g706gj/index.html>

<sup>46</sup> World Bank Group, “Supporting Africa’s transformation: regional integration and cooperation assistance strategy”, May 7th 2018, <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>

<sup>47</sup> UNECA, African Union Commission and the African Development Bank, “Assessing Regional Integration in Africa”, 2017, [https://www.uneca.org/sites/default/files/PublicationFiles/aria8\\_eng\\_fin.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/aria8_eng_fin.pdf)

<sup>48</sup> GE Reports, “Power Pool: Here’s What it Takes to Electrify West Africa”, July 2nd 2018, <https://www.ge.com/reports/power-pool-heres-takes-electrify-west-africa/>

<sup>49</sup> ICA, “Regional infrastructure projects with continental impact can drive African trade, growth and development”, November 14th 2018, <https://www.icafrica.org/en/news-events/ica-news/article/regional-infrastructure-projects-with-continental-impact-can-drive-african-trade-growth-and-development-667966/>

## Chapter two: Financing growth

Finance is vital to scaling, whether for inventory, hiring, opening offices or research and development. Companies that do not spend enough on growth could be laying down a path for better-resourced rivals to overtake them. Spending too much can quickly see a promising business hit the rocks. Pawame's Mr Allegue cites "first wave" off-grid solar companies that ramped up too quickly and could not sustain the maintenance and management requirements or failed to plan their finances sufficiently.

But financing has long been a bugbear. A quarter of African SMEs surveyed by the European Investment Bank between 2011 and 2017 said access to finance was their biggest obstacle.<sup>50</sup> Improving the depth, speed, cost and variety of financial tools is central to business growth, whether it be from commercial banks, PE, VC, development finance institutions and even crowd-funding.

**32%** Domestic credit to the private sector by banks as a percentage of GDP in SSA in 2017 

### Banking on the banks

Commercial banks have played a limited role in funding SMEs. Domestic credit to the private sector by banks stood at 32% of GDP in SSA, and only 23% of firms reported using banks to finance their investment in 2017.<sup>51</sup> Banks have also increased lending to the public sector in recent years, leaving less available for private-sector lending.<sup>52</sup> The



<sup>50</sup> EIB, "Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability", 2018, [https://www.eib.org/attachments/efs/economic\\_report\\_banking\\_africa\\_2018\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_banking_africa_2018_en.pdf)

<sup>51</sup> Ibid

<sup>52</sup> Ibid

European Investment Bank says this “crowding out” effect increased throughout Africa during 2014-18, especially in Ghana, Niger, Tanzania and Zambia.

But high interest rates have been the long-standing issue for businesses. This particularly



**The banking industry over here is really complex: it is a high interest rate environment.**

*Pat McMichael, CEO, Eat'n'Go*

affects companies too big for mobile or micro-lending and those too small or unconventional for conventional corporate banking services.<sup>53</sup> <sup>54, 55</sup> “The banking industry over here is really complex: it is a high interest rate environment,” describes Pat McMichael, CEO of Eat'n'Go, a Nigerian restaurant and fast-food group. “The company has to have a strong cash flow and be a very profitable business to service. The money is there and [mainly] available to businesses that are well structured and have the right governance in place.”

As a result, Eat'n'Go finances growth mostly by reinvesting their own profits, where cash-flow allows. “We reinvest in the business very

heavily,” says Mr McMichael. “We are blessed to have a strong group of shareholders who are able to see the long-term view of the business in Nigeria and the strength of the market we have, and continuously reinvest.”

Banks defend their interest rate decisions, citing a lack of collateral, high default rates and poor book-keeping by start-ups as reasons. But, in some cases, interest rates are falling. Kenya’s interest margin decreased from 14% in 2000 to 6% in 2017 and, in Mauritius, from 11% in 2000 to 5% in 2017.<sup>56</sup> Banking reforms are also improving financial performance. One example is in Nigeria, where a tenfold increase in minimum capital requirement for banks in 2005 forced a wave of mergers and acquisitions. The resulting consolidated banks have been significantly more efficient and slightly more profitable, with lower levels of non-performing loans, allowing for regional expansion.<sup>57</sup>

Furthermore, mainstream banking has matured over the past decade with South Africa and Mauritius boasting financial market depth approaching that of upper-middle-income countries globally<sup>58</sup> with others, like Namibia and Cape Verde, close behind. Pan-African banks are extending their reach across the continent too, playing a larger role in debt syndications and infrastructure.<sup>59</sup>

<sup>53</sup> EIB, “Banking in sub-Saharan Africa Recent Trends and Digital Financial Inclusion”, 2016, [https://www.eib.org/attachments/efs/economic\\_report\\_banking\\_africa\\_digital\\_financial\\_inclusion\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_banking_africa_digital_financial_inclusion_en.pdf)

<sup>54</sup> Chatham House, Research Paper, Henry Thompson, Ben Shepherd, Gita Honwana Welch and Adjoa Anyimadu, “Developing Businesses of Scale in Sub-Saharan Africa Insights from Nigeria, Tanzania, Uganda and Zambia”, 2017, <https://www.chathamhouse.org/sites/default/files/publications/research/2017-09-08-business-of-scale-africa-thompson-shepherd-welch-anyimadu.pdf>

<sup>55</sup> IFC, “New Horizons in African Finance”, 2016, <https://www.un.org/pga/71/wp-content/uploads/sites/40/2017/06/New-Horizons-African-Finance.pdf>

<sup>56</sup> EIB, “Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability”, 2018, [https://www.eib.org/attachments/efs/economic\\_report\\_banking\\_africa\\_2018\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_banking_africa_2018_en.pdf)

<sup>57</sup> EIB, “Banking in sub-Saharan Africa Recent Trends and Digital Financial Inclusion”, 2016, [https://www.eib.org/attachments/efs/economic\\_report\\_banking\\_africa\\_digital\\_financial\\_inclusion\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_banking_africa_digital_financial_inclusion_en.pdf)

<sup>58</sup> EIB, “Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability”, 2018, [https://www.eib.org/attachments/efs/economic\\_report\\_banking\\_africa\\_2018\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_banking_africa_2018_en.pdf)

<sup>59</sup> How We Made it in Africa, “Five trends shaping banking in Africa”, November 19th 2015, <https://www.howwemadeditinafrica.com/five-trends-shaping-banking-in-africa/52655/>



Mobile money, which facilitates money transfers and payments, is also a growth enabler as it moves into business lending. Kenya Commercial Bank has extended 14m micro-loans since partnering with M-Pesa, a mobile phone-based money transfer service, in 2015. Commercial bank micro-lending apps are also issuing loans via mobile phone, including Commercial Bank of Africa's M-Shwari, Equity's Equitel, Co-operative's M-Co-op Cash, Barclays' Timiza and HF's Whizz.<sup>30</sup>

Fintech innovation is boosting credit markets at the microlevel as start-ups use mobile and behavioural data to assess creditworthiness. Tala Kenya has issued more than US\$300m in 6m loans to 1.3m people since launching in 2014 and raised US\$65m last year, to fund a global expansion.<sup>31</sup> South Africa-based Nomanini, an enterprise payment platform,

is rolling out short-term loans to informal merchants across the continent.

### Finding an alternative

PE and VC have been important in helping mid-tier African companies expand by bringing both capital and expertise. "Such investment not only provides funds, but also gives us access to strategic partners and guidance that have allowed us to build a high-growth business," says Wesley Lynch, CEO and founder of Snapplify, a marketplace for digital education content, related educational services and devices. Currently active in 14 African territories, Snapplify received financing from AngelHub Ventures, a VC company backed by former First National Bank CEO Michael Jordaan, among others.

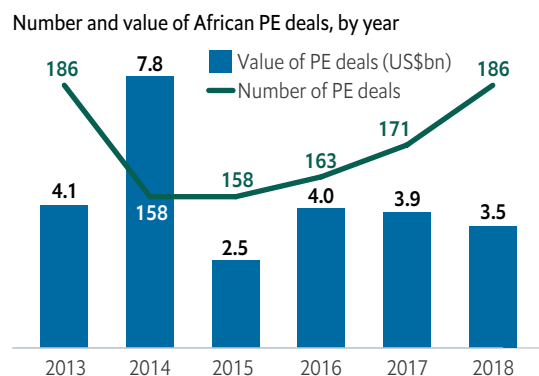
PE, which tends to focus on more established firms looking to scale up, closed 1,022 deals

**Figure 4: PE fundraising in Africa, 2013-18**

### KEY FINDINGS: PE DEALS

**1022** Number of reported African PE deals, 2013-2018

**US\$25.7bn** Total value of reported African PE deals, 2013-2018



Source: Annual African Private Equity Data Tracker 2018, African Private Equity and Venture Capital Association<sup>63</sup>

<sup>60</sup> African Private Equity and Venture Capital Association, "2018 Annual African Private Equity Data Tracker", <https://www.avca-africa.org/research-publications/data-reports/2018-annual-african-private-equity-data-tracker/>

<sup>61</sup> Wee Tracker, "African Venture Capital 2018 Report - USD 725.6 Mn Invested in 458 Deals", January 4th 2019, <https://weetracker.com/2019/01/04/what-a-year-the-state-of-venture-capital-in-africa-2018/>

<sup>62</sup> Quartz, "Startup investment in Africa jumped to record levels in 2018 as later stage rounds rose", January 11th 2019, <https://qz.com/africa/1520173/african-startups-funding-in-2018-broke-records/>

<sup>63</sup> African Private Equity and Venture Capital Association, "2018 Annual African Private Equity Data Tracker", <https://www.avca-africa.org/research-publications/data-reports/2018-annual-african-private-equity-data-tracker/>

worth US\$25bn across Africa between 2013 and 2018.<sup>60</sup> VC also seems to be gathering a healthy head of steam: African start-ups enjoyed an almost fourfold increase in VC funding in 2018, raising a record US\$725m across 458 deals.<sup>61</sup> They are receiving bigger tickets above the US\$5m mark too.<sup>62</sup>

However, there are risks with both. VC firms, which often finance companies at a nascent stage, tend to pursue higher growth rates at start-ups, which can place immense pressure on executives. With both there is a risk of a forced exit too. “But this can be mitigated,” explains Magellan Makhoul, co-founder and managing director of CedarBridge, a GCC-based PE firm that invests in the Middle East and Africa. “The agreement can include a clause that the PE firm can exit only after a specific valuation or milestone has been reached. This allows the PE firm to achieve its goals and the executives to continue to grow the business, at a different but a potentially less stressful pace.”

PE and VC will continue to be important for African businesses, representing a pool of much-needed finance for those hungry for growth. Michelle Essomé, the chief executive at the African Private Equity and Venture Capital Association, sees positive trends for the future, highlighting the consumer play as discretionary spending rises. French retailer Carrefour and Omani food producer Salalah Mills have expanded into SSA on the back of this. Regulatory reforms are also helping,

she says, pointing out reforms in Kenya and Nigeria allowing pension funds to devote more capital to alternative asset classes as one example. Developing a sophisticated service industry, with skilled lawyers, auditors and advisers, can accelerate inward investment.

Twenty-five Africa-focused funds—a mix of institutional investors, VC grants and prizes—launched last year with a capital pool of just over US\$1bn, and a growing share of Africa focused-VC firms now have local management.<sup>64</sup> Fund launches this year include Africinvest, a Tunis-based PE firm, partnering with Paris-based Cathay Innovation to launch a new pan-Africa tech venture fund, aiming to raise US\$168m. Africinvest has also partnered with Gulf Capital, an alternative asset manager in the Middle East, to provide a US\$51m structured loan and equity investment to iSON Xperiences, an outsourcing and customer service operator in 14 countries across the continent.<sup>65</sup> Seedstars, a Swiss group, is joining forces with Tamim El

**In terms of investment through PE and VC, information technology (including internet services), financial services and consumer goods and services have attracted the highest volume of investments over the past five years.**

<sup>64</sup> Tech Crunch, “Local venture capital fund formation is on the rise in Africa, led by Nigeria”, <https://techcrunch.com/2018/10/22/local-venture-capital-fund-formation-is-on-the-rise-in-africa-led-by-nigeria/>

<sup>65</sup> African Private Equity and Venture Capital Association, “AfricInvest and Gulf Capital Invest in iSON Xperiences, Sub-Saharan Africa’s Largest customer service and outsourcing power”, November 26th 2018, <https://www.avca-africa.org/newsroom/member-news/2018/africinvest-and-gulf-capital-invest-in-ison-xperiences/>

<sup>66</sup> Quartz, “Venture capital funds are starting to make bigger bets on African start-ups”, April 12th 2019, <https://qz.com/africa/1593745/venture-capital-is-making-bigger-bets-on-african-startups/>

<sup>67</sup> Crunchbase

<sup>68</sup> Sifted, “Heetch joins the ride-hailing scramble for Africa”, May 9th 2019, <https://sifted.eu/articles/heetch-joins-the-ride-hailing-scramble-for-africa/>



Zein and Maxime Bouan, the founders of First Growth Ventures, to create a SSA venture fund worth US\$100m.<sup>66</sup> Incubators and accelerators are also springing up in the start-up ecosystem, especially in Cape Town, Lagos and Nairobi, with offerings including seed funding and VC backing into the so-called Silicon Savannah.

In terms of investment through PE and VC, information technology (including internet services), financial services and consumer goods and services have attracted the highest volume of investments over the past five years.<sup>67</sup> The fintech sector was, in 2018, by far the largest draw for finance-raising (see figure 5). The data show that EdTech is the fourth biggest draw, which, combined with cleantech at second, shows the centrality of social

and environmental narratives to business in Africa. Other sectors of note in Africa include mobility, which is drawing interest from foreign start-ups. French ride-hailing app Heetch recently raised US\$38m to launch in Algeria, Cameroon and Senegal.<sup>68</sup>

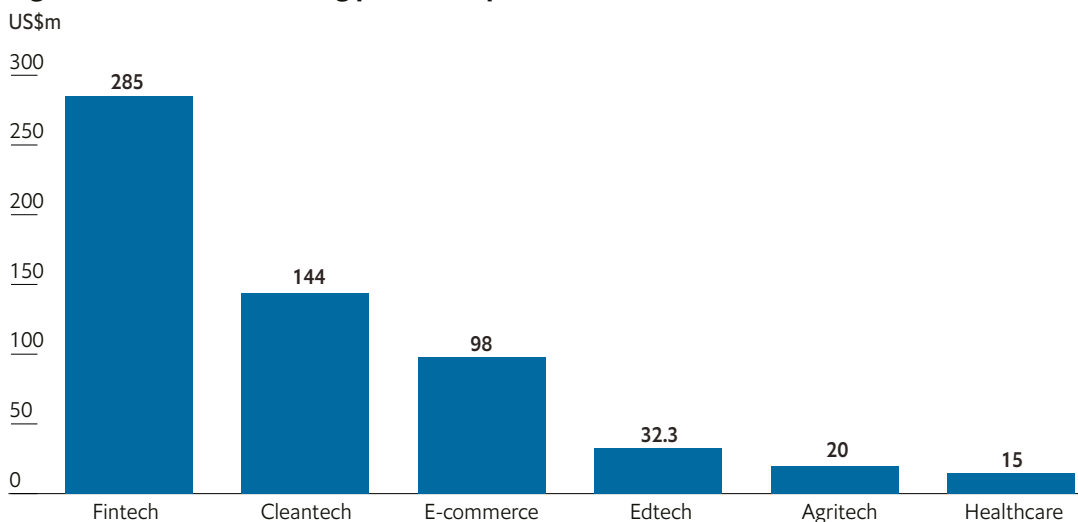


**“There is an opportunity for companies to invest but I think they need to see more success stories. When it is proven, I’m sure they will invest more.**

*Sacha Poignonnet, co-founder and co-CEO, Jumia*



**Figure 5: Investment-raising per start-up sector, 2018**



Source: Quartz Africa/WeeTracker<sup>69</sup>

<sup>69</sup> Quartz, “Startup investment in Africa jumped to record levels in 2018 as later stage rounds rose”, January 11th 2019, <https://qz.com/africa/1520173/african-startups-funding-in-2018-broke-records/>

## Corporate interest

Big global players are buying into African start-ups via VC too. Paystack, an early African participant in the well-known Silicon Valley start-up accelerator Y Combinator, lists Tencent, Visa and Stripe among its investors over two funding rounds to date. These partners bring the resources to enable its aggressive expansion plan in Nigeria, Ghana and, eventually, the whole continent, according to its head of growth, Mr Quartey.

In other instances, corporations have taken direct stakes in African companies. A prominent example is e-commerce firm Jumia. Its pool of global investors includes Germany's Rocket Internet, South Africa's MTN Group and Mastercard, proving that blue chip brands still believe in Africa's growth story. But many potential investors cite political instability as a key risk, Jumia's co-founder Mr Poignonnec explains. "There is an opportunity for companies to invest but I think they need to see more success stories," he says. "When it is proven, I'm sure they will invest more."

## Funding for various stages

New financing mechanisms, like crowdfunding, are helping channel more

capital to African start-ups at the early stages of the business.<sup>70</sup> Pawame, for instance, sought crowdfunding in the UAE to raise capital, mainly because it could not work to the term sheets of banks. "We would have preferred to raise in local currency, but the local banks were giving us an interest rate that was outrageous," explains Mr Allegue.

Africa is seeing steady growth on its crowdfunding platforms. In 2015 crowdfunding projects in Africa received an estimated US\$126.9m.<sup>71,72</sup> The same year, the *African Crowdfunding Association* was founded to push for clear and simple crowdfunding legislation and harmonisation across countries. Current platforms include Thundafund, a leading rewards-based crowdfunding initiative in South Africa, which has raised over US\$1.8m for 550 projects.<sup>73</sup> Afrikstart, another crowdfunding platform, estimates the value of crowdfunding in South Africa—the continent's biggest market—will rise to R415.8m (US\$28.3m<sup>74</sup>) in 2025.<sup>75</sup>

As African businesses scale up, development finance institutions (DFIs) are bridging the gap to encourage investments in capital-heavy sectors like tourism and hospitality. These can generate a large number of jobs and deliver good returns on investment from a development perspective. "It's a great option,

<sup>70</sup> Forbes, "Equity Crowdfunding: A New Model for Investing in Africa", August 2nd 2018, <https://www.forbes.com/sites/jonathanmoed/2018/08/02/a-new-model-for-investing-in-africa/#3dc30c233a45>

<sup>71</sup> Covington, "Crowdfunding in Africa: Opportunities and Challenges", February 6th 2017, <https://www.covafrica.com/2017/02/crowdfunding-in-africa-opportunities-and-challenges/>

<sup>72</sup> Afrikstart, "Fundraising Goes Digital in Africa", <https://afrikstart.com/report/>

<sup>73</sup> Thundafund, <https://thundafund.com/>

<sup>74</sup> At 14.6913 R/US\$ on 30th May 2019. <https://www.bankofengland.co.uk/boeapps/database/Rates.asp?Travel=NlxAZx&into=USD>

<sup>75</sup> Africa.com, "Crowdfunding in Africa to Reach 415.8 million in 2025", June 29th 2018, <https://www.africa.com/crowdfunding-in-africa-to-reach-r415-8-million-in-2025/>

<sup>76</sup> ESI Africa, "Blended finance for scaling up investment in Africa on the rise", November 16th 2018, <https://www.esi-africa.com/regional-news/southern-africa/blended-finance-for-scaling-up-investment-in-africa-on-the-rise/>

<sup>77</sup> AfDB, "African Development Bank and peers leverage Blended Finance to unlock nearly US\$9 billion for Developing Countries", October 15th 2018, <https://www.afdb.org/en/news-and-events/african-development-bank-and-peers-leverage-blended-finance-to-unlock-nearly-us-9-billion-for-developing-countries-18576/>


especially in environments or in countries where the financing structures are difficult to make a hotel project work,” says Hyatt’s Mr Shah. “We have many countries where local financing rates tend to be very high, in the 18-20% range.” In this way, DFIs are proving a crucial bridge, especially for large investments in high-return sectors where project risks can be more significant. They also bring structure to projects in areas like project management and good governance, says Ms Essomé, “focusing on governance and gender balance at senior levels.”

DFIs are often fully or partially funded by development aid bodies, and renowned players in SSA include Norfund (Norway) and the UK’s CDC. Over 42% of all blended finance deals globally, totalling US\$138bn, target SSA.<sup>76</sup> In 2017 the African Development Bank (AfDB) and other DFIs used about US\$1.2bn in concessional funds to support nearly US\$9bn in private investment projects.<sup>77</sup> Blended finance solutions are supporting innovative renewable energy projects, agriculture projects and SMEs. The African Guarantee Fund runs a facility to leverage private investment in SMEs,<sup>78</sup> aiming to boost its capital fivefold to US\$500m by 2021.<sup>79</sup>

At later stages, companies can also turn to listing on African or international stock exchanges as a source of capital for expansion. Jumia is a prime example, having listed on the New York Stock Exchange in early 2019. Such listings, however, do expose companies

to greater scrutiny (not just financial, but social and environmental records too) and make them susceptible to public attacks, as Jumia recently experienced. Ahead of publishing its first quarter results, Citron Research accused the e-commerce firm of making false disclosures in their SEC filings.<sup>80</sup> Jumia responded stating that it stands by its prospectus.<sup>81</sup> “We cannot control what others say about Jumia,” says Mr Poignonnet. “The one thing we can do is continue to focus on our mission, continue to focus on driving the business and creating a level of impact for Africa.”

To encourage listings, West Africa also has, in the West Africa Stock Market, the world’s only regionally integrated bourse. In addition, the African Exchanges Linkage Project, an initiative from the AfDB and African Securities Exchanges Association, hopes to link seven of the continent’s stockmarkets to boost liquidity and enhance foreign investment by creating a centralised trading platform so investors in one country can buy or sell shares in another.<sup>82</sup>



### **The African Exchanges Linkage Project hopes to link seven of the continent’s stockmarkets to boost liquidity and enhance foreign investment.**

<sup>76</sup> African Guarantee Fund, <http://www.africanguaranteefund.com/en/welcome-ren>

<sup>77</sup> Reuters, “African Guarantee Fund targeting capital of \$500 mln by 2021”, May 8th 2018, <https://www.reuters.com/article/africa-african-guarantee-fund/african-guarantee-fund-targeting-capital-of-500-mln-by-2021-idUSL8N1SF7MU>

<sup>80</sup> Quartz, “Jumia is trying to take the high road on a short seller’s fraud claims”, May 13th 2019, <https://qz.com/africa/1618115/jumia-responds-to-citron-fraud-claims-shares-rise/>

<sup>81</sup> <https://www.ft.com/content/15ebabd4-757e-11e9-be7d-6d846537acab>

<sup>82</sup> The African Exchanges Linkages Project, [https://african-exchanges.org/sites/default/files/projects/the\\_african\\_exchanges\\_linkage\\_project.pdf](https://african-exchanges.org/sites/default/files/projects/the_african_exchanges_linkage_project.pdf)  
<http://www.africacapitalmarketsnews.com/4012/african-jumbo-stock-exchanges-to-link-in-2019/>

## Scaling-up businesses in sub-Saharan Africa: Foreign investment

Foreign investment is supporting business expansion through:



Direct investment in companies



Private equity and venture capital



Investment in infrastructure

Top eight source countries for foreign direct investment in sub-Saharan Africa, 2015 to H1 2019:



## Gulf investors and Africa's scale-ups: Opportunities arising from domestic challenges

Gulf investment flows into Africa have waxed and waned over the last two decades, concentrated in a handful of countries, specifically in East Africa, with the UAE leading the charge.<sup>83,84</sup> Broadly, foreign direct investment from the UAE into sub-Saharan Africa is estimated at US\$649m between 2015 and 2019 (first half of the year), led by consumer goods, logistics and energy firms. According to Crunchbase, a business information and investment tracker, the bulk of private equity (PE) and venture capital investment in 2017 and 2018 was targeted at internet service companies, in recognition of the potential for digital growth on the continent. But the number of deals from the Gulf Co-operation Council (GCC) region have been limited compared with the volume from East Asia, North America and Europe. "I see a lot of interest, but I have seen few actual investments," observes co-founder and co-CEO of Jumia, Sacha Poignonnec.

What is holding back investors in the GCC? In East Africa, Magellan Makhoul, co-founder and managing director of CedarBridge, explains that he found deals to be overpriced. There are a few reasons for this: "One factor is that other large international and local PE funds were paying very high multiples. Then you have grant and NGO money in the mix. Together, they account for a large amount of capital, chasing few deals. As a result, sellers had very high expectations—double digit multiples, in fact—and at our firm we usually don't pay a multiple of more than five or six times profits." Furthermore, progress with deals can also depend on the strength of the investor's or business's network. "The majority of our equity

fundraising was done through personal relations, angel investors, founders, family and friends," explains says Alexandre Allegue, chairman of Pawame.

Those businesses and investors turning to Africa must work with a longer time horizon, executives and investors we interviewed advise. "The courting process is much, much longer," explains Mr Makhoul. "In a few cases we are still courting a few groups and it has been over 24 months. One example is a nursery group and the other a large retail group with over 30 locations, both based in Kenya. We have learned, however, that being patient can be extremely rewarding, specifically, in the GCC and in Africa."

Gaps in the financial system in Africa have presented opportunities for some investors. Gulf Capital, an alternative investment firm in the Middle East, forged a partnership with Serengeti Capital to grow its private debt business from Middle East, North Africa and Turkey into Africa. Announcing the agreement, Gulf Capital's managing director, Walid Cherif, said Serengeti's industry relationships on the continent would help them support small and medium-sized enterprises and mid-market companies that lack access to financing because of local banks' focus on asset-backed financing and blue-chip companies.<sup>85</sup> Similar opportunities in deepening Islamic finance can be identified and developed by financial services companies in the GCC, home to a wealth of expertise in the field.

<sup>83</sup> The Economist Intelligence Unit, "Beyond Commodities: Gulf investors and the new Africa", November 28th 2015, <https://eiu.com/en/press-releases/2015/11/28/beyond-commodities-gulf-investors-and-the-new-africa>

<sup>84</sup> The Economist Intelligence Unit, "GCC Trade and Investment Flows", 2014, <https://perspectives.eiu.com/sites/default/files/GCC%20Trade%20and%20Investment%20Flows.pdf>

<sup>85</sup> Gulf Capital, "Gulf Capital Expands to Sub-Saharan Africa through Exclusive Partnership with Serengeti Capital", February 29th 2016, <https://www.gulfcapital.com/en-US/1/52/Press-Release-Detail/1517/Gulf-Capital-Expands-to-Sub-Saharan-Africa-through-Exclusive-Partnership-with-Serengeti-Capital>

## Conclusion: Scaling up Africa, an opportunity for investors

Africa's growth recovery offers hope the continent can return to its GDP surge in the earlier part of the millennium—but only if its businesses can scale within and across borders. Policy improvements, including trade and customs unions, financial harmonisation, and transport integration, are helping companies build regional footprints. "Greater economic integration, through agreements such as the ACFTA, would enhance business growth and in turn contribute to local economies and prosperity overall," reiterates Ashish Thakkar, CEO of Mara Phones, the first smartphone to be made in Africa.



**Greater economic integration, through agreements such as the ACFTA, would enhance business growth and in turn contribute to local economies and prosperity overall.**

*Ashish Thakkar, CEO, Mara Phones*

Start-ups are attracting VC from some of the world's biggest brands and reaching the international stage through global IPOs. But a perception challenge remains, with many citing political risks as an impediment. "But we want to prove to the world that there are very successful companies in Africa, despite those risks," asserts Mr Poignon. Proving that companies can scale and go global provides a critical proof of concept to encourage more

investors to seize on the opportunities of the continent.

As businesses on the continent scale up, foreign investors are playing an important role on two fronts: building infrastructure that enables African businesses to scale and investing directly in SMEs to facilitate growth. Particularly from the GCC, a host of companies have identified robust opportunities for investment and expansion of their businesses. Infrastructure and logistics companies such as DP World, Saudi Binladin Group and Agility have already entered the market. But the expertise of GCC-based firms in infrastructure development and operations means they have far more to offer in building up Africa.

For business expansion from the GCC, many executives we interviewed cite the demographic advantage as the primary driver, spurring investment in consumer goods and services as well as in education. Further regional integration in SSA will expand the consumer base, making investments on the continent more attractive. Technology companies in the GCC that successfully deliver solutions based on emerging

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technologies—from e-commerce platforms and payment systems to robo-advisers and blockchain for logistics—have a market in SSA hungry for technological development. As domestic financing falls short, there will be an opportunity for crowdfunding platforms and other financial services companies too.

To continue to attract foreign investment in high-growth sectors, governments in SSA need to work towards making their business environment “investment ready”. This entails having regulation in place that enables foreign investment in target sectors as well as a sophisticated service industry of lawyers and auditors to complement this.

In the end, successful scaling is not just good for the business, but for the whole ecosystem. The long-standing dream of a “United States

of Africa” could benefit all citizens as they are able to trade more with each other (bearing in mind the challenges of a political union).

For Paystack, building a pan-Africa business is appealing not as a means to plant their flag in more and more countries, but to connect African consumers. “Right now, it’s easier for an African customer to trade with a company based in the US or Europe, than it is for an African customer or Africa-based merchant to trade next door, which is ridiculous,” says Mr Quartey. “The function of expansion is to make it possible for a Kenyan merchant to find their customers in Nigeria, or a Botswanan merchant to find customers in Mozambique.” Setting up the environment to enable this in SSA is no easy feat but done right, it can create a launchpad for the world’s next Google, Facebook or Amazon.

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**LONDON**

20 Cabot Square  
London, E14 4QW  
United Kingdom  
Tel: (44.20) 7576 8000  
Fax: (44.20) 7576 8500  
Email: london@eiu.com

**GENEVA**

Rue de l'Athénée 32  
1206 Geneva  
Switzerland  
Tel: (41) 22 566 2470  
Fax: (41) 22 346 93 47  
Email: geneva@eiu.com

**NEW YORK**

750 Third Avenue  
5th Floor  
New York, NY 10017  
United States  
Tel: (1.212) 554 0600  
Fax: (1.212) 586 1181/2  
Email: americas@eiu.com

**DUBAI**

Office 1301a  
Aurora Tower  
Dubai Media City  
Dubai  
Tel: (971) 4 433 4202  
Fax: (971) 4 438 0224  
Email: dubai@eiu.com

**HONG KONG**

1301  
12 Taikoo Wan Road  
Taikoo Shing  
Hong Kong  
Tel: (852) 2585 3888  
Fax: (852) 2802 7638  
Email: asia@eiu.com

**SINGAPORE**

8 Cross Street  
#23-01 Manulife Tower  
Singapore  
048424  
Tel: (65) 6534 5177  
Fax: (65) 6534 5077  
Email: asia@eiu.com