Bloomberg Invest: Focus on Africa

Investing in Manufacturing in Africa: Untapped Business Opportunities

David Malingha: Ladies and gentlemen, welcome, welcome. I hope you are enjoying your dinner. In the first session just before the main course, Enrick was talking about Angola's manufacturing. We're going to broaden that just a little bit and take it to the rest of Africa. Like you saw in the chart that was played earlier, manufacturing in 2020 was about 11% of Sub-Saharan Africa's GDP. That compares with about 16% in the 1990s. Though the value has gone up almost 200 billion, the pace has really slowed.

In fact, in 2020 we saw a contraction. Intra-Africa trade is at about 15% of total exports, untapped export potential in Sub-Saharan Africa is at least 20 billion. This points to low manufacturing concentration within Africa. It is something that national governments, regional blocs, and now the Africa Continent of Free Trade area is trying to reverse by investing in industrialization and facilitating trade. Dangote is developing one of the world's biggest oil refineries in Nigeria.

Coca-Cola has several plants near lovers of its beverages across Africa, and I'm **[unintelligible 00:01:31]** to add lovers of the current taste of its beverage, and politicians at every opportunity, they have really a promise to expand or build new factory capacity. Will the dream of factory Africa be realized soon or will it continue to stumble at new challenges such as the pandemic, climate change, and geopolitics?

With us today, we have an esteemed panel, Liz Lloyd, the Chief Impact Officer at British International Investment. It has a portfolio of about $7.1 billion, and it is involved in about 608 businesses in Africa, 480 in Asia. Then we have Liz, and then we have Marco Serena, who is the Head of Sustainable Development Impact, the Private Infrastructure Development Group. It has 4.4 billion committed infrastructure projects and has mobilized more than 35 billion from private sector and DFIs since 2002. Welcome, Marco.

Marco Serena: Thank you.

David: Last but not least, we have Maher Jarmakani, the Chairman and CEO of Jagal and its wholly-owned subsidiary, Nigerdock. Jagal is a Nigerian conglomerate, which has exposure in energy, logistics, maritime, technology, as well as fast moving consumer goods. It employs over 5,000 employees, all concentrated in Nigeria, and has over $300 million in revenue. You're most welcome, Maher.

Maher Jarmakani: Thank you.

David: I would like to start with Liz. Over the years, national governments, regional blocs, have drawn industrialization master plans covering processing of oil, metals, import substitution of items such as foods and textiles. In your time having lived and worked in Africa, done business with governments and businesses in Africa, how have you seen this journey evolve, of industrialization of Africa, especially now that we have these emerging challenges and new challenges of the pandemic conflict in

Africa and outside Africa, but affecting Africa? How have you seen this journey evolve?

Liz Lloyd: I think it's been mixed, to be honest. We've certainly seen some very good examples, but I think your framing is exactly right. It is about government and business, and you need both sides. You need the enabling environment of rule of law, of stable tariffs, of that kind of predictability, and access to finance. All the things that we know, access to power. How often are power outages and downtime the reason that you can't build a growing business. In addition, now, you need internet connectivity. The supply chain and the global demands, if you're exporting, mean that your responsible investing standards need to be tip-top because you're going to want to appeal to that wider market outside your own area.

I think there's both sides on scale. I think new manufacturing, new technology, and more modular developments mean that you can see the potential for domestic manufacturing in smaller settlements, but you also need the scale to be able to aggregate and create those markets for export, whether that's within a country or in the region. I think it's a little bit of a complicated picture. You need a lot of things to go right altogether for it to really blossom. We are, as you were saying, seeing a few setbacks. We see a few steps forward, and then a few setbacks. Unfortunately, COVID has been a little bit of a setback for the continent in the development recently.

David: Marco, from your experience as a funder of infrastructure to support industrialization in the low-income countries where you operate, talk of Malawi, Zimbabwe, and so on, can you say you've moved the needle?

Marco: Well, it's difficult to say if we moved the needle for the continent. The African Development Bank is saying we need 100 billion investment a year in infrastructure to bridge the infrastructure gap. There is a lot to do. Clearly, if you look at those amounts, it cannot come from government alone. It must be private investment as well as government. We've been trying to do this over the years.

As you said, 20 years ago, the first of our companies was set up, Emerging Africa Infrastructure Fund, with a mandate to do low-income countries. 20 years later, the fund that has started with government funding is able to attract banks, institutionals, and it's profitable, and the default rate is in line with other funds. I think there is a story there of success of investments in the infrastructure sector.

It is difficult. Our experience is that it takes longer to develop infrastructure in Africa than in other countries and it is often more expensive due to the groundwork that first movers have to do, but it is possible. You mentioned Malawi, recently, we've just invested in the first independent power producer solar plant, 75-megawatt utility scale, and it's operational. The second one is about to go to operation again.

Our hope is that this will move the needle and that by showing that a PPA is viable, that more will come into the infrastructure space. That is closely linked to manufacturing because you need different pieces, but you certainly need to power industry, you certainly need to move goods around, and so that infrastructure is crucial.

David: Maher, since you're on the factory floor, could you paint for us a picture of what manufacturing is currently, not just in Nigeria, but in Africa, really, in comparison to some of the other regions?

Maher: Nigeria and a lot of the West Africa region, which I'm mainly focused on, a lot of growth coming in, so a huge pressure to create employment opportunities, take advantage of local resources, steer away from the use of foreign exchange. A lot of the governments in West Africa have taken a similar line where they want to develop and promote local manufacturing. That comes with a lot of challenges, access to finance, logistics, the infrastructure to move goods around is a big issue.

The right scale of seaports across the West Africa region, which I'm mainly focused on, is a bit of a challenge, but improving. Actually, the last 10 years I've seen significant growth in the manufacturing space. The difference I would say between manufacturing in Africa versus the rest of the world is the amount of things in terms of areas of risk that have to be managed while scaling a business in the region. Things from looking after the right scale of power, access to electricity, stable, reliable electricity, security, the movement of goods, the requisite amount of logistics apparatus that moves your goods around the continent is a big challenge.

There's a lot of barriers to moving goods across borders. Scaling a business in regions of Africa, whether it's West Africa, East Africa, is hindered a lot by infrastructure that is aging. You've got a mix of huge opportunities and growth and potential but hindered by a lot of infrastructural problems that need to be resolved.

David: Nigeria is Africa's biggest economy, South Africa is the most industrialized, and when you talk about power, that's really the sticking problem. If you had Liz and Marco in a boardroom and you were pitching, is this what we would present as the biggest problem?

Maher: It is. Number one is reliable power and number two I would say is infrastructure. Those are the two key components to scaling the manufacturing sector in the continent. We've seen this theme rise up and again in all the areas of manufacturing, heavy industry, light industry, and it is a big barrier to growth.

David: Liz, when you listen to entrepreneurs, investors like Maher, or governments, and you listen to this long list of challenges, not just from power, but FX transport of moving goods, the interconnectedness, do you see opportunities or you see something insurmountable?

Liz: Certainly not insurmountable. We too have invested hugely in the continent over the last 10 years in the last year. There are some really good success stories, whether it's in **[unintelligible 00:12:18]** You have probably more success stories around your tables than I can quote, but that was Nigeria from importing a huge amount of fertilizer. This was one of the first and efficient plants in the manufacture of Euro-based fertilizer.

That's a very sizable project. There are some very sizable investments. I think on the interconnectedness side, whether that is from the liquid telecoms, the interconnected fiber, telco, data centers, the modern economy, or the infrastructure, power, renewables in the decarbonization journey, there were many people including us

DFIs financing this transition to a newer cleaner economy. We have dollars, we find great opportunities to put to work to create that more stable environment.

David: Could you take us through some of the existing and emerging themes such as climate change, ESG, and how those play into the industrialization journey in Africa now and in the foreseeable future?

Liz: Climate change both from a de-risking perspective is increasingly important. We would always do due diligence on future investments from a transition risk point of view, how resilient are they going to be to future climate change events? That protects our money, any other private investors that we mobilize. From a circular economy point of view, there are great opportunities. Malawi is the flavor that has been mentioned before, but we have invested in 14Trees, which is a partnership with Lafarge that creates low carbon bricks, moving away from clay-based bricks and on average saving 14 trees per house built.

I think there are both the innovative, interesting end and at the large scale end with **[unintelligible 00:14:50]** solar or these huge power projects that there are huge opportunities to support the transition to a low carbon economy for many, many investors.

David: How is that playing out so far?

Liz: So far fine.

[laughter]

David: Look, Marco, given the huge infrastructure backlog you just mentioned, that huge figure of 100 billion and there's frankly not a lot of money and there's a lot of competition for whatever money is available. What are some of the key factors you consider in your capital allocation and even the countries you decide to invest in?

Marco: We are in a particular position because of our mandate and we are effectively an impact investor. We got a mandate to operate in countries where infrastructure will deliver the most benefits. We hope that we'll deliver the most benefits or bridge the gap for people to move towards achieving the sustainable development goals. What we are looking at in any country is how crucial that piece of infrastructure is to the economy of the country and how important that will be to the businesses and to the fabric of the country.

That is ultimately a key task for any investor, because that will then ensure that we can navigate changes of government that were talked about before, we can navigate the risks because in the long-term, that project is needed and makes economic sense for the country. I think that will be one of the first tasks that we're looking at. The other thing is, can we make those projects investible to high standards?

You're saying there isn't a lot of capital, it's true and capital is impatient, but at the same time there is capital available and there is more willingness to invest in emerging markets than there was before. One of the issues is how do you bring projects to the standards that are needed for these investors and how do you demonstrate that you can go beyond the risk?

One of the things that we had to create is a project development arm that invests at the equity stage and takes huge risk, it's risk capital, in order to bring those projects to a level in which they can be investible through that. The other key tool is using guarantees in a clever way in order to stimulate or maybe extend a tenure of the lending that is available, which is crucial to some of the projects that we're working on and involved with.

David: Can I specifically ask you, which are some of those sectors and industries you're backing or pushing? Economies are changing, we are seeing a lot of emphasis of industries of the future, energy transition, but on the other hand, we see lots of new risks emerging. We didn't know that there would be a war in Europe, for instance, and then besides the war in Europe, there are also conflicts just within Africa itself. In the Sahel, in Ethiopia, in the horn, given these new emerging challenges and climate change and ESG, which Liz just talked about, what are those industries that you're betting on?

Marco: As an infrastructure investor, we keep working on energy for about 40% and transport for 30% to 40%, so we've invested in border posts, we've invested in water transport, for example, on lake Victoria, one of the first scheduled ferry services for goods, and we see that as an area of growing expansion. Then if we are thinking of what type of industries can we support, then we are really looking at the industry of the future as you were saying.

Rather than thinking producing cars, can we assemble electric vehicles pieces on the continent, for example, and we had a couple of initial investments and we're looking at that, can African countries manufacture solar panels in the future? It will be a long journey, but that will be needed. Then obviously there's the agri-business sector. The idea is looking at the regional market for goods, starting from food to consumer goods, and then if you look at the international market, look at the industries of the future, I think everything related to the energy transition are things that Africa could be well placed for, but it needs a huge sum of investments into the basics of the infrastructure again.

David: When I've had this composition from you, Marco, the question that again comes up is creating resilient value chains, given the disruption that, again, these challenges have really brought about. There's a time parts could not move. Factories had to basically shut down in parts of Africa. In some places, experts could not move, so programs like fighting desert locusts had to stop because experts or chemicals could not move. Is this something that you look into and have a strategy while you invest in these countries?

Marco: Well, again, we think that the investing in infrastructure that allows the energy in different forms to go to businesses, goods to move across water and across roads, and to do all of that in a way that is resilient to the big changes in terms of heat stress and extreme weather events, et cetera, is key. What you're describing is we're facing huge disruption of supply chains globally, and certainly, it is really difficult, for example, for us to even honor all our work and contracts on the EPC contractors for solar panels, for example, but then at the same time, resilience can only be strengthened if more is produced locally, and there are regional hubs.

I think the hope is that you can work around some of the key hubs on the continent, and build on those, really.

David: Maher, many manufacturers in Africa and investors and governments have really talked about the Africa Continental Free Trade Area and the opportunities it brings not just in production, but also improving livelihoods of a quantum of Africans. Do you share that view, and are you working toward tapping these opportunities?

Maher: I do. I think there's a lot of work to be done with the Africa Free Trade Agreement, and it goes hand in hand with the infrastructure challenge that we're talking about, because the movement of goods is an issue of fiscal policies, but it's also an issue of efficiently moving goods across continents, and removing those barriers, whether they are physical barriers or barriers to do with customs, ports, tariffs. These are big challenges that actually face the continent. You've got 55 nations across the continent, over $3.5 trillion dollar economy, but the most trading that most African countries do are with non-African countries. To improve or to shift that paradigm, this African Free Trade Agreement is necessary.

There's a lot of capacity on the continent for turning raw materials into manufactured goods. A lot of it happens outside of the continent, and I think with the right incentives, not only for manufacturing, but to invest in the infrastructure around manufacturing and needed supply chains are going to be helped by this free trade agreement. I see a huge potential behind it.

David: Liz, what do you think about this vision for the free continental area?

Liz: I think as Maher was saying, it does have a huge amount going for it. Being able to transport across borders, obviously increases the scale and the opportunity on your doorstep as it were. He's completely right that the supply chains at the moment are not all at all intra African. We're really looking at-- there's huge amounts of potential there. I did also want to mention one other area of potential that I think is quite interesting, and we're seeing a lot on the continent, which is the emerging VC and tech industry.

I think there is a potential of the linking up of traditional manufacturing and the tech and creating platforms which we're seeing elsewhere, which really start connecting those businesses via tech to create larger platforms. I think combined with the Africa Free Trade Area, if you're finding better ways of communicating and linking up disparate businesses with that enabling environment, then you've really got a potentially good partnership together.

David: We're now going to move to the last segment since we are running out of time. I'll start with you, Marco, what your vision is for Africa and if you think that the funding backlog for Africa will reasonably reduce, and when you think that will happen, and most importantly, how that will be meant to happen?

Marco: I think it's difficult to put a date to it. I think the opportunity is there. I think the key thing would be to ensure that the incentives are there to develop projects on the continent and to have a reasonable amount of money focused on that in particular. I think one of the ways to bridge that infrastructure funding gap is to leverage the money that is on the continent in the pension fund, for example, of some of the big countries, from Nigeria and others, and to think about some of the local currency solutions that are needed on the continent as well.

I think there is the opportunity there at the moment for Africa to be part of the energy transition and on overall focus that there is a climate.

David: Maher, despite all the challenges, as you give your last remark, could you tell us what keeps you going?

Maher: I think the potential, the growth, and a vision for an Africa that is much more self-sustaining, higher levels of employment, and targeting levels of, I would say, output that meets the targets set out by our governments. These are very important targets because there's a huge population that relies on it. You feel in the situation that we are, let's say, in Nigeria, and the West Africa region, these targets are extremely important. There's a huge reliance for increase in employment opportunities, use of our resources, more stability in the political and social region.

This gives us a point of purpose that we play a very important role in this trajectory. We think we've done a great job today in our group. We're a very diversified group as you mentioned in the energy, in the FMCG sector, in the tech sector. We hope we can add a lot more to it. That sense of purpose is very important to us.

David: Thanks. Liz, as you have the final word, where do you see manufacturing in Africa in the next 5 to 10 years?

Liz: Goodness. I'm afraid I don't know exactly. We can concentrate on some of the challenges and we should do because they're real and unless you identify them, you don't tackle them. Education levels are higher. Despite the fact that power is still an issue, it is better. Logistics, shipping, it is in a different place to where it was 10, 20 years ago. I have to be more optimistic about all of these steps forward. I think there is much more consensus around whether it's the sustainable development goals, the need for an energy transition, and there has been in a while.

I think for us to finance some of these projects or support governments and support the private sector, I think there's a lot more consensus about the road ahead.

David: Thank you, Liz, thank you, Maher, thank you, Marco, so much for your time. I would also like to thank the sponsors for today, the Angola Private Investments Promotions Board. Thank you, the audience. I hope you're enjoying your dinner. It's time for dessert.

[applause]

[00:30:38] [END OF AUDIO]