Africa Forum London Report

June 2017

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Chairman’s remarks

Be a mountain or lean on one

On 21 June, we held our 4th Africa Forum London event at the Merchant Taylors Hall in the heart of the City. This year’s theme, Africa Stand Up – Vision 2025, was a chance for us to look at how Africa can positively respond to the current global uncertainties, and take advantage to position itself to rise. We had a genuinely exciting and varied menu of topics and speakers, from leading economists to rail-blazing artists and several hundred guests from a broad spectrum of African interests.

But what does ‘Africa Stand Up’ mean and why did we choose this as our theme for 2017?

Over the last 12 months, our global Africa Practice has been active on the continent working on different matters such as advising the governments of Ethiopia and Djibouti on the concession agreement for the $4.5bn, 756 km railway line between the two countries; assisting AfeximBank on their $3bn multi-series EMTN programme and representing JSE listed SABMiller on their $79bn takeover by AB InBev. However, although we’ve been busy, there is the sense that there is still much to do in Africa. With the growing trend of protectionism across the US and Europe directly impacting some of Africa’s largest international donors and investors, the continent should be using this as an opportunity to reach out to the global business community in order to renegotiate its place on the international stage. Now, more than any other time in Africa’s recent history, is the time for it to stand up for itself.

The good news is there are green shoots that show this is happening. I have personally seen the amazing transformation of the Moroccan approach to sub-Saharan Africa, the peaceful elections in Ghana and hopeful progress, the belated but exciting changes in Nigeria, challenges in South Africa, potential in Angola with electoral change and the transformation possible. Not to mention the focus on intra-Africansupply chain and value in ECOWAS, the interest from global tech giants in encouraging new innovation in Kenya and so on.

The bad news is that amongst other things, my 3 C's, of Corruption, Currency and Certainty continue to be a barrier to progress and investment.

– Where currency is unstable or simply not available, businesses struggle to price their deals and have major problems in simply getting their money out of jurisdictions.
– In an era of global regulation, corruption is not just a moral or even economic issue, it is one of critical legal importance to clients, especially with the US FCPA and the UK Bribery Act.
– Business struggles in uncertainty, and this is especially true for long term projects. In Africa, this includes long term political, regulatory and systems certainty, and links to issues of level playing fields, capacity (personal and systemic) and enforcement.

Global clients who operate on the continent need to address all of these concerns and need support in dealing with local issues, which is where the partnership between global and local law firms align. This is especially felt with the need to develop scale and intra-African trade, where complex cross border issues are exacerbated; and in the increasingly symbiotic roles of the public and private sector in delivering a strong Africa, which demands mutual commitment.

But we continue to be positive about Africa. We see the opportunity and work closely with our friends from the best African firms across 51 countries to help our clients realise their ambitions and achieve success. It may not always be easy, but the opportunity is great and, as you will read, this year's Africa Forum was a reflection of that.

We'd like to say a huge thank you to all our guest speakers and we look forward to seeing you at our next London and Johannesburg Africa Forums.

Best regards

Andrew Skipper
Partner and Head of Africa

Investment outlook

New investment opportunities and key agents of change

Nicholas Cheffings, chair of Hogan Lovells, spoke with Admassu Tadesse, President and CEO of Trade and Development Bank (TDB), about new investment opportunities and challenges in Africa.

Mr Tadesse was appointed to President and CEO of TDB (formerly trading as PTA Bank) in 2011, before which he served as an executive of the Development Bank of Southern Africa, responsible for international finance, and investment and corporate strategy.

How have changes in the African investment outlook been reflected in TDB's evolution?

Our growth has reflected Africa's growth. The past ten years have been a period of rapid change at TBD. In the last decade we have financed $26 billion of projects in Africa. For comparison, in the ten years previously we financed less than US$1bn.

The source of this evolution – more of a revolution – can be pinpointed to the turn of the millennium when there was a renewal and a revitalisation of regional banks, resulting in a focus on best standards, best practices, and institutional reforms. The African market opened up in many different ways and, as a result, the continent has attracted first-class talent from all over the world. For example, TBD has been able to recruit from London, Paris, and New York.

For us, becoming a Public Private Partnership after reforming its charter five or six years ago was

crucial. TDB is majority owned by African sovereign states, but also has non-regional shareholders and institutional investors, including pension funds and insurance companies. Institutional investors require returns, dividend yields and cash payments. The result has been a business that is healthy, legal, and regulated.

What are the biggest current challenges for African banks?

Satisfying demand. There is so much need for developmental finance so that, once a bank becomes well regarded, there is tension between declining projects and having a conversation about banking standards, prudent regulations and the other factors which accompany the role and obligations of a rated bank operating on global terms.

As a development bank which does not operate on taxpayer money and is not leveraged, we behave differently to those banks which lend out billions of dollars of equity. Sometimes potential clients find this set-up hard to understand and, as a result, it can be difficult to satisfy all imaginations.

Other challenges include fragility in parts of the continent. Although there are fewer instances of failed states now, there are still cases like Somalia and Libya, and several other countries with instabilities and vulnerabilities. The challenge is responding to the tension between development finance in fragile regions and the shareholder development imperative and fiduciary responsibilities.

How has the relationship between trade and government policy changed?

Trade alone is not transformative for development. For the value of trade and job opportunities to increase, government decisions must add value. Trade policy is not the panacea, but without policies which enable you to convert potential, you cannot have a transformation.

Reducing tariff barriers on African goods has been tried, but diversification of supply and demand across countries is also an important factor. Greater intra-Africa trade can lead to both geographical and economic diversification. But trade needs development: development promotes industrialisation and creates incentives. Better infrastructure removes barriers to trade and leads to better economic integration.

A range of other trading industries are in play, such as agro processing, and retail and consumer. Reports continually show the rise of the consumer middle classes, and so the likes of the major FMCG companies which invest in consumer products for example, are now looking to invest in light manufacturing and agro processing.

What other growth factors are influencing investment in Africa?

From our perspective, [Government banking policies] have allowed TDB to increase our lending portfolio, a quarter of which is agribusiness, at an industrial and a cooperative level.

However, demand is growing exponentially, expectation is huge and there is a lack of intermediation between lenders and borrowers. While countries like Kenya, Mauritius and South Africa have huge banks which can deal with these issues, there is a disparity between their capabilities and those of other regional economies.

“But trade needs development: development promotes industrialisation and creates incentives. Better infrastructure removes barriers to trade and leads to better economic integration.”

The demand is based on a product being bankable, effective and not easily suppliable. There is so much room for growth and, as a result, there is a lot of stakeholder interest. For example, the housing market is currently a big area of investment interest in Africa. There is also a lot of movement in the power sector, and the expectation that it will take off in a similar way to the telecoms industry a few years ago, which now has an 80-90% user penetration rate in certain countries.

Investment enabling environments have developed, for example, in Mozambique and Ethiopia. Peaceful governments have led to business environments which have changed very evidently in the last fifteen years. An enabling climate begins with stability. Another factor is debt sustainability.

Typically we need a benevolent regional power to push for economic integration. South Africa is the strongest heavyweight and needs to drive this change. Equally, you see medium weights doing their part: Tanzania, for example, has pushed for the export pipeline to Uganda. These examples are specific to the East Africa story, however.

How influential is improvement in the African power sector?

The power sector is creating markets which do not have to wait for other economic markets to come to fruition. There are a number of countries investing heavily in power with both domestic and export markets which will ignite governments' interest: the more they see successes, the more they will facilitate opportunities.

There is also a greater willingness for cross-border work in the power and telecoms sectors, which lends better economies of scale. This is harder in other industries, such as commodities, where prices have declined and governments are concerned about resource depletion.

How is the internet impacting trade?

The internet has become a huge part of the way trade is done. Nigeria, for example, has 93% user penetration, but in other African states the number is much lower.

The internet revolution will proceed in a similar way to telecoms. It will facilitate business: as momentum builds, the regulatory framework will increase and things will move very quickly, just as they have with telecoms.

What does the future hold for international relations and the trajectory of trade and development in Africa?

East Africa in the 70s and 80s did not have the diversified infrastructure you see now in oil, gas and mining, all of which are very strong sectors in Tanzania and Kenya. Movement in these sectors are all happening at a time when agribusiness and light manufacturing are also developing well.

The commodity booms also affect policy decisions on the basis of the Dutch disease effect. Strong visionary leaders are needed to keep people focussed on what is not strictly necessary at the time. Angola, for example, has diversified into arable and agribusinesses with the decline of its previously strong commodities sector. These businesses have continued to hold momentum such that, even if commodity prices mature and improve, the government will continue to focus on agribusiness while there is critical mass.

What is your vision for Africa in 2025?

I would bet on the rise of Bitcoin in Africa. Global events, in particular in Europe, have shown that regional monetary union is much easier said than done. Countries and regions will be much more cautious going forwards and, as a result, payment technologies, such as Bitcoin will find a market.

“Typically we need a benevolent regional power to push for economic integration. South Africa is the strongest heavyweight and needs to drive this change.”

The CEO corner

With a panel made up of CEOs from some of the most successful companies in Africa, the CEO Corner provided a platform for experts to exchange ideas and experiences about doing business on the continent and most importantly, paint a realistic picture of the potential business environment in 2025.

Lucy Quist, CEO of Airtel Ghana; Matty Vengerik, CEO of Quantum Power, Murray Grant, Managing Director of CDC Group and Elizabeth Rossiello, CEO of BitPesa; provided their unique insights into this discussion which was chaired by UK and Africa Regional Managing Partner, Susan Bright.

Africa – a continent brimming with investment opportunities

Participants generally agreed that the investment and business opportunities in Africa are boundless. With a wide range of competing choices, such as energy and power, infrastructure, telecommunications, e-commerce, agriculture and financial services, members of the panel and audience were divided on the most promising and rewarding of the sectors between now and 2025. In a poll conducted during the forum, 63% of the participants voted for infrastructure, while 21% thought energy and power were the most promising.

Notably, Mr Vengerick, was of the opinion that infrastructure was the bedrock upon which any development in Africa will occur. Ms Quist of Airtel, however emphasised the importance of acknowledging the level of development that has already occurred in Africa. For example, she pointed out that there is considerable infrastructure and, developed cities in Africa. She was concerned that the picture being painted and held by many was of a completely underdeveloped and rural Africa, with no modern infrastructure. In support, Ms Quist referred to a recent BBC report which showed that the internet speed in Kenya was in fact faster than many places in Europe, including the United Kingdom.

Adapting old business models and adopting bespoke business models

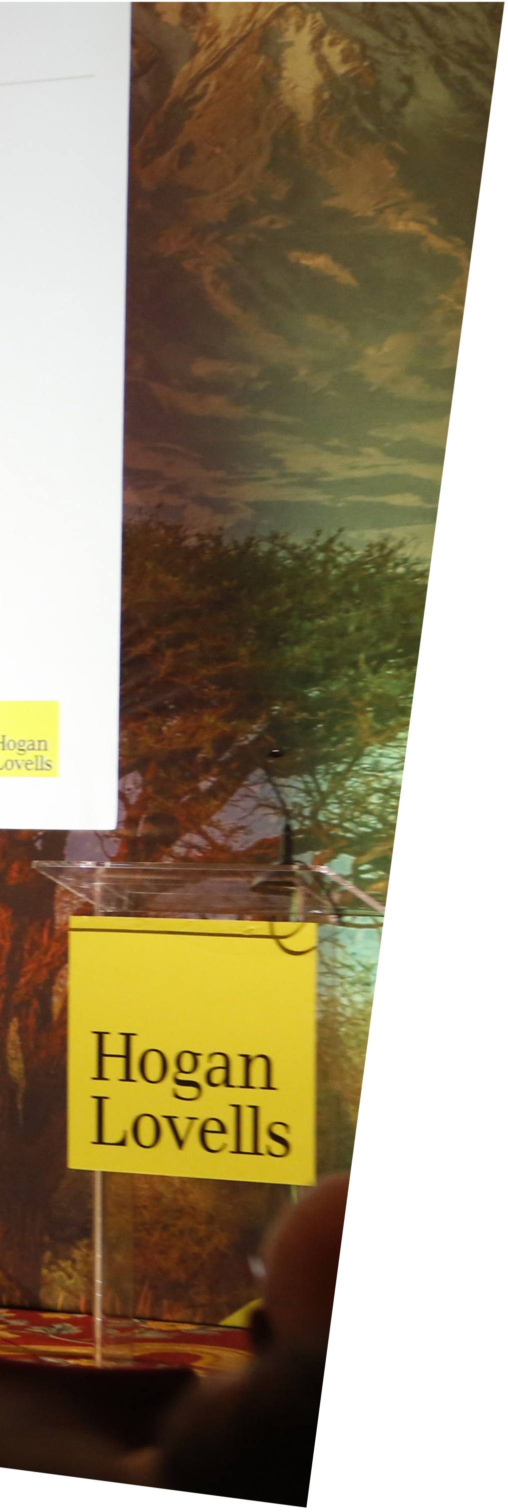
Beyond the formal economy, Mr Grant, of CDC Group, emphasised the need to adapt existing business models and, in some cases, innovate new and bespoke models in order to tap into the lucrative and still growing informal economy in Africa.

> The picture being painted and held by many was of a completely underdeveloped and rural Africa, with no modern infrastructure. In support, Ms Quist referred to a recent BBC report which showed that the internet speed in Kenya was in fact faster than many places in Europe, including the United Kingdom.

Corruption, currency and certainty – biggest barriers to investment?

On the biggest barriers to investment in Africa, Ms Quist challenged the view that linked corruption to Africa's brand. She admitted that while there have in the past been incidences of corruption in individual African countries; this is not any different to experiences in countries on other continents. She maintained that Airtel Ghana, like many other multinational companies in Africa, operates with the highest integrity and in line with international standards. She further suggested that the risks posed by currency and uncertainty are inflated in people's minds and this mainly results from a lack of understanding of the market and business climate in Africa. Echoing Mr Grant's earlier opinion, she reiterated that to succeed in Africa, it was necessary first to understand the business environment and market in Africa before deciding whether to adopt existing business models or tailored business models.

In supporting Ms Quist's view, Mr Vengerik, emphasised the need for global businesses to work locally by making use of the resources on the ground. He further pointed out that corruption, currency instability and uncertainty are mostly symptoms of a faulty system rather than problems in themselves. Using Ghana as an example,



Mr Vengerik pointed out that the currency in Ghana appreciated post the recent elections, and this was mainly because the expectations of the newly elected government were high. In other words, the currency will always respond to the latest developments. Mr Vengerik suggested that the emphasis should be on fixing the root causes.

Technology, artificial intelligence and unemployment in Africa

In a continent with a large and still growing population, and high levels of unemployment, a participant at the forum highlighted a potential problem arising from the gradual move by many international businesses to the use of technology and artificial intelligence. CEO of BitPesa, Elizabeth Rossiello, however opined that there will always be new types of businesses and so there will always be a need to employ people. Ms Quist emphasised that Africa is playing catch up on technology largely because the global technology giants do not see Africa as a priority market. Currently, the biggest technology player in Africa is telecommunications and the impact of technology on the day-to-day life of Africans is a bit exaggerated. Using Ghana as an example, Ms Quist submitted that while there has been over 100% penetration of telecom users, only 37% of these are smart phone users. Africa is still far from the point where technology will eliminate jobs and so the threat of technology taking over is still remote. In her opinion, Africa has basic problems to solve before turning to more complex issues.

Africa 2025

Susan Bright, rounded up the session by asking each of the panellists what their vision of Africa by 2025 is. Ms Quist sees an Africa with more opportunities to create prosperity. Ms Rossiello predicts an Africa brimming with new investors and investment opportunities. Mr Vengerik and Mr Grant, while aligning themselves with the others, added that the long-awaited change in Africa must come from within. According to Mr Vengerik, Africa needs to take up the challenge of changing the perception the world has of the continent

Despite the varied ideas and experiences of Africa, panel members and participants of the CEO Corner all came to the same conclusion – the future of Africa is indeed bright!

Intra-African trade:

A new age of opportunity

Ban Ki-moon, former UN Secretary General, estimated that intra-African trade accounts for as little as 12%, whereas trade with non-African countries is more than 50% of overall trade on the continent.

This, compared to more developed trade blocs, such as the EU where it accounts for over 60%, highlights the level of disparity. Shalini Bhuchar Partner, Hogan Lovells introduced a panel of pre-eminent experts, featuring Admassu Tadesse President and CEO, Trade and Development Bank (TDB) – formerly trading as PTA Bank; Kanayo Awani Managing Director Intra-African Trade Initiative, African Export-Import Bank (Afreximbank); Miguel Azevedo Head of Investment Banking – Africa and Portugal, Citigroup and Gaimin Nonyane, Head Economic Research, Ecobank International Group who chaired the session, discussing what is a realistic objective for intra-African trade by 2025 and how key stakeholders can help to achieve this.

What are the biggest barriers to intra-African trade?

A survey of the attendees at the Africa Forum 2017 revealed many perceived governmental policies as the main barrier to intra-African trade, as opposed to the barriers of high tariffs, competition, market penetration, volatility of markets and lack of understanding.

Mr Tadesse agreed but added that the accumulated effect of government policies over a period of time has had a hampering effect. Though existing governmental policies "sound right and seem right", accumulated situations, structural factors, initial conditions and historical policy framework have "locked Africa in this position". Historically, infrastructure in Africa focussed on commercial relationships with overseas entities, particularly the export of raw materials. Yet some countries have successfully navigated these legacy issues. Mauritius was a sugar-producing island but has shown that with determination and focus states can change their trajectory.

Ms Awani cited market penetration, accessibility and trade information as key barriers to intra-African trade. To penetrate any inaccessibility, industrialisation and systems which cultivate intra-African trade need to be a focus. Supply side constraints need to be considered as many jurisdictions do not have established and successful regional value chains which allow and promote effective intra-African trade. She mentioned China's industrial revolution which created opportunities for local businesses and people. Agriculture or agri-business and light manufacturing should be a focus for African governments and "people labour" can give African states a competitive advantage, as it did in China. Some practices in Africa result in competitive disadvantage for states and as such need to be curtailed if micro, small and medium-sized enterprises are to be successful. For example, African businesses trade primarily with letters of credit, whereas the practice of factoring in Europe makes trading easier and means intra-African trade is less appealing to investors. Mr Azevedo added that the next wave is for international bond markets to become more available to African corporates. This has happened in the telecoms industry and it is hoped this investment appetite will spread to other industries.

Financing is another significant issue as international banks are providing a supportive financial backbone for exporting, whereas similar support is not available for intra-African trade. For example, Ghana's cocoa regulator, signed a $1.8 billion loan with international banks in September 2016 to finance purchases for the 2016/17 season. This loan, the largest pre-export soft commodity financing facility in sub Saharan Africa, was oversubscribed by $640 million, as it has been for a few years. The reality is that the financial market for intra-African trade is not as buoyant and international banks are not providing comparable liquidity for such transactions.

Support for extra-African trade at the expense of intra-African trade is not a new story. Governments facilitate more commercially attractive policies for extra-African trade; e.g. the subsidies available to African businesses trading internationally. Mr Tadesse emphasised that African governments need to realise "the world is not a level playing field" so they "need to work twice as hard" to make intra-African trade as attractive as extra-African trade. It is currently more expensive for African countries to trade with each other than to export goods internationally; e.g. the tariffs that exist when transporting goods from West to East Africa are more significant in some countries than those levied on goods imported from and exported to Europe. Also certain development banks have not been as effective as they should be due to corporate governance and institutional issues. There is potential for development finance institutions (DFIs) to help unlock trade and provide comfort to investors by de-risking infrastructure projects.

From a banking perspective, access to capital is critical for regional country development. Echoing the views above, Mr Azevedo reiterated that there is global competition for investment and no intrinsic reason why global banking institutions must focus on intra African trade investment, unless they are commercially lucrative. The panellists agreed that a laissez-faire policy had some place in promoting intra-African trade – reduced government involvement and deregulation will go a long way in facilitating growth. As Mr Azevedo said, "If you let the forces of society go free, tremendous things can happen".

Which kinds of institutions play a major role in supporting and facilitating intra-African trade?

Numerous institutions can positively affect intra-African trade, including, but not limited to, governments, DFIs, development banks, regional trade blocs, private sectors and regulators. Responses from a voting poll suggested most of these entities could play a significant role.

Ms Awani observed that "there is a difference between ambition and practice". All of these entities play a role but for some of them to be effective in supporting and facilitating intra-African trade, they require the co-operation and commitment of individual countries. For example, with trade blocs, agreements must be entered into which require significant negotiation and without willing governments no consensus can be reached to take effective action. Individual African states need to be committed to ratifying and implementing these agreements. The East African Community (the EAC) is an example of success - entrenched commitment in the bloc and amongst their respective members, resulted in a notable level of intra-regional trade.

Mr Tadesse agreed stating that the regulators and regional blocs are working towards increasing intra-African trade but it is dependent on co-operation of member states. Legislation in African states often runs contrary to the legislation promoted by supra-national regulators. Governments must ratify decisions made by the relevant regulators but many African governments do not like to cede sovereignty, curtailing the strength and motivation of the commercial sector.

The panellists moved on to discuss the informal sector and diversification. In the informal sector, which amounts to about 40% of trade in Africa, an area of concern was the fact that informal traders are not regulated; however, a balance has to be struck between necessary regulation and overzealous regulation resulting in the alienation of informal traders. Formalising and accounting for the

significant participation of women in the informal trade sector is also extremely important.

Mr Tadesse considered diversification to be a significant challenge to intra regional trade. In East Africa, countries such as Kenya have diversified their economies, successfully trading with their neighbours, as well as with Europe. Market diversification and regional success stories are valued by investors, and scale is critical to gain productivity and profitability. The regional aspect is important as a profitable company in only one African state will have less access to the equity markets than a comparatively less profitable company with a presence in a few countries. For equity markets, Mr Azevedo pointed out that it is still not easy for relatively successful equity markets to gain access to the liquidity markets. If African states can group together, e.g. by creating an East African stock exchange, this may make investment more attractive.

Are the African trade blocs working?

The audience was divided on whether or not the African trade blocs are effective. Mr Tadesse emphasised that there are too many Africa trade blocs, resulting in redundancy and lack of effectiveness. There are however successful blocs in East Africa; e.g. TDB has helped create the grand free trade area which now includes 26 countries and combined GDP of over a trillion dollars. This was launched a few years ago and has been effective in curtailing dysfunction, duplication and inconsistency; though we need to wait to accurately assess how effective it is.

In January 2012, the African Union adopted a decision to establish a Continental Free Trade Area (CFTA) by an indicative date of 2017. Ms Awani felt this is what Africa needs as it will operate as a continental customs union and market.

Is the platform for a single currency due?

Ms Awani mentioned the common currency initiative for the ECOWAS countries which, whilst a commendable initiative, is still some years from being finalised, with difficulties arising from variance in economies, scale of governments and fiscal circumstances. In respect of the African Union, Mr Tadesse discussed the plans for an African central bank, African monetary fund and African investment fund, but after seeing what is occurring in Europe, appetite is relatively low.

The francophone countries have an integrated currency regime and have targeted 10 years to launch a common currency, but the CFA franc is overvalued and there is discussion of devaluing the same. That said, what is telling is that some francophone countries that abandoned the CFA franc are now weaker than they used to be.

How important are investor protection mechanisms when considering a free trade area?

Mr Azevedo agreed that investor protections are a fundamental enhancement to facilitate commercial bank financing. For larger deals, this is a focus for regional investors and it becomes a condition precedent to the financial arrangement, so you cannot reach financial close without certain protections being in place. In some financial transactions, investors require a legal commitment from regulators and this can often derail completion.

Ms Awani shared that Afreximbank finances certain investments but also assists with challenges faced by external investors by providing guarantees where applicable, such as guaranteeing the Sierra Leonean government's commitments to privatise hotels in Freetown. More DFIs need to provide this level of support to alleviate the concerns of international investors.

Will a focus on intra-African trade actually alleviate poverty?

Investment in Africa will in turn increase GDP and is of benefit to the poorest in society. There is less unrest, services sectors expand and there is a trickle-down effect with the rise of income levels and more individuals in the middle income level. Governments are on the right track according to Ms Awani, but there are immediate challenges, such as the price slump in West African countries and the delay in grasping the importance of the supply chain.

Raw materials export has little impact on labour. The success stories for East Africa are that the products traded across the region are processed goods and this involves job growth. An understanding of the intrinsic link between promoting the supply chain, intra-African trade in manufactured products, job growth and alleviation of poverty is fundamental.

Is there a consensus on the growth of intra-African trade by 2025?

The overarching sentiment amongst the panellists was one of optimism with a hope that the public and private sector enthusiasm to promote intra-African trade would manifest in tangible results, such as regional champions, regional stock exchanges and growth in GDP.

Unlocking exponential growth in Energy and Infrastructure deployment

Overcoming hurdles to realise Africa's true potential

Infrastructure and energy projects have long been a major part of the investment landscape in Africa. That is unlikely to change in the near future, if anything, such projects are likely to command an even larger share of African investment over the next decade.

Very few energy and infrastructure projects are purely private investments, even in the most developed markets – working with government agencies goes hand in hand with energy and infrastructure investment. But how does working in Africa create different risks and hurdles for investors? How can investors prepare to make sure their investments are successful?

A panel consisting of Matty Vengerik, Chief Executive Officer at Quantum Power; Murray Grant, Managing Director of Intermediated Equity, CDC Group; and David Ofosu-Dorte, Senior Partner at AB & David, discussed a broad spectrum of challenges facing investors in energy and infrastructure projects in Africa. The panel was moderated by Scot Anderson, Partner and Global Head of Energy and Natural Resources at Hogan Lovells.

Hurdles may not be unique, but are often harder to clear

Infrastructure and energy projects are never short-term investments. There is no quick fix when it comes to building transportation links or a reliable energy distribution grid. What makes Africa a particular challenge is that processes are often slowed down by government action (or inaction) which bring projects to a complete halt.

"Unfortunately, it's the time delay, as opposed to the engineering, that I think is costing us the opportunity" said Grant. "One of the big issues that I look at in infrastructure is how do you speed up the whole process from end to end? That requires a much more proactive engagement from governments, which questions your ability to take time out of the equation. For example, it takes twice as long to build a power station in Africa as opposed to anywhere

else in the world. Until you can fix that problem, investors will decide they are better off elsewhere".

The panel was clear to point out that the fault lies on both sides – governments and investors. Mr Ofusu-Dorte said that many investors fail to adequately prepare for projects in Africa, without giving due consideration to the differences in project challenges. "I would say [the most important thing in a project] is structure, structure, structure. There is a large amount of capital looking for infrastructure projects in Africa, but challenges can only be overcome by proper project structure and preparation".

The panel discussed the changing and challenging role of government in African energy and infrastructure projects. Mr Vengerik noted that "in a well-functioning government, there is no reason for government to own anything. The real issue is creating the market conditions for

people to get access to services like electricity and water… right now, Africa has the highest cost of energy per kilowatt hour".

Public Private Partnerships – a way forward?

The increased role Public Private Partnerships (PPPs) are playing in African energy and infrastructure investment is illustrated by the number of countries that have formalised legal structure in PPPs. Across the continent, governments have recognised that formal structure, secured by legal constraints, is key to attracting the investment they need.

Many African governments lack the capital and the experience to create a modern, accessible power and transportation infrastructure. "Even if money is available, the process of procurement and structuring are lacking", says Mr Ofusu-Dorte, "and PPPs are a way of solving this problem. If you look across Africa, at Nigeria, Ghana, Tanzania, and Zambia, all of these countries have PPP policies in place".

Mr Grant recognised the potential for PPPs to take on a larger share of African energy and infrastructure investment, but was also quick to point out that not all governments are willing to take a back seat. "You need government to roll back and be a good regulator not an interferer in the development process, but it gets tied up in politics", he said. "A lot of time is spent in the development phase, and if you are from the West you have to comply with tight regulations. It can take years to clear the runway just for a project to start. We are still in the process of educating governments and trying to get them to roll back".

The increased role for PPPs may come at the expense of commercial banks, historically the largest investors in African energy and infrastructure projects. The panel pointed out that increasingly, commercial banks have become more risk-adverse in Africa, with South Africa being the only African market where such investors are willing to take the long-term risk necessary to generate returns on such projects. In the past, banks have invested in projects where the intention has been to keep projects off national balance sheets only to ask to be bought out at a later date.

Africa's human capital is an underrated strength

However Africa and its investors tackle the continent's challenges, there have been many investment successes. That has helped alter the investment outlook, and created more opportunities in the continent than ever before, and created a growing middle class, not necessarily something people think of when they think of Africa. But one look at African demographics tells another story – a middle class is emerging, and growing fast.

The panel reported good experiences in working with Africans on energy and infrastructure projects. "The idea that you can only do business by importing expats does not work anymore," noted Mr Vengerik. "There may be some roles where there is a capacity shortfall but working with a local community means working with people on the ground".

The other panellists agreed and pointed to several recent successful investments that have relied heavily on local employment. Mr Ofusu-Dorte used the Kenyan Water Resources Management Authority as an example "...so successful that it could act as guarantor for the government when the government borrowed money" to be continued "...and a mini reactor in Ghana run entirely by locals". "The concept that [Africa] lacks capacity is one major misconception that is holding Africa back" he added.

The panel and the audience engaged in lively debate that highlighted both challenges and opportunities for African investors. The reality, according to Mr Grant, is simple: "There is no magic bullet. We must get capital back to the bottom of the pyramid".

> "Many African governments lack the capital and the experience to create a modern accessible power and transportation infrastructure."

The role of innovation in Africa’s resurgence:

A Panacea or Pandora’s box

The continued march of technology has been highlighted as a key to Africa being able to leap to first world status. The benefits of internet for all, artificial intelligence, block chain, mobile payments and drones are seen by some as the social and economic saviours of the continent as populations and urbanisation increase and supply chains feel the strain. The theoretical benefits of transparency, certainty and accessibility may be apparent, but is this a panacea or a potential cliff edge?

We gathered leading industry experts Lucy Quist, CEO, Airtel Ghana, Elizabeth Rossiello, CEO, BitPesa Limited, Mark Spelman, Member of the Executive Committee, World Economic Forum and Adebola Williams, Co-Founder, RED, and CEO, Red Media Africa and StateCraft to discuss the role of innovation in Africa’s resurgence and to get their outlook of the future. The session was moderated by Andrew Skipper, Partner and Head of the Africa Practice at Hogan Lovells.

A decentralising force which is changing traditional models

Digital is a decentralising force which empowers consumers and, increasingly, we are seeing a breakdown in industry boundaries. The power in technology lies in the combination effect (that is, using different types of technologies in combination with each other, e.g. AI and energy storage technology), the real time effect that it provides (traditionally, businesses have relied on historic innovation but real time information has changed the way in which businesses can make decisions, for example, farmers now have instantaneous weather updates) and connectivity (digital is connecting people across markets). Further, digital must be used to deliver personal individual benefits and resolve some of the key challenges Africa is facing.

Technology is also changing traditional business models from asset intensive to asset light and heavy. In Europe and North America, for example, car sharing schemes are used widely. These schemes are a great example of a pay-as-you-go model using technology. Africans have demonstrated a desire to use pay-as-you-go models. As such, these new business models are well adapted to what is happening in the continent. However, in order to use technology to make a difference in Africa, one needs infrastructure, the skill set and local content to make the technology affordable. The World Economic Forum is focussing on these things at present.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> Blockchain and Bitcoin can be used as a business tool, for instance, to store information and verify it in a way which is accessible, affordable and secure for new entrants

Can innovation create solutions?

Speaking of what they were most proud of in relation to innovation, the panellists agreed on the fact that technology has been able to democratise access through its distributive reach which in turn creates an empowering economy and enables the ordinary man to influence institutions. Technology like Blockchain and Bitcoin can be used as a business tool, for instance, to store information and verify it in a way which is accessible, affordable and secure for new entrants to the market. Similarly, social media can be used to, not only to track patterns of behaviour, make critical assessments (for instance, is bottom-up engagement working?) and target marketing but also helps in galvanising younger citizens to engage in the political process and hold influencers accountable (as has been the case in Nigeria). WhatsApp is also being used to conduct business transactions. Drones are being used to deliver critical medical supplies to remote regions in Rwanda. At the core of exploiting the benefits posed and universal access granted by technology for businesses in Africa, is the belief that Africa is ready for these changes and convincing investors of the same. The big technology companies, for example, do not consider Africa as a key market and, therefore, do not focus on creating solutions for them. This must be coupled with the necessary practice of adapting business models to get the best

out of technology and suit the environment of the future. We must also focus on the drivers behind using technology and ensure that technology is used to create solutions that make a difference in every day life. In particular, it is important to understand that business is becoming a world of consumer experiences i.e. how do consumers want to experience a particular type of service and how can that service be personalised to them?.

The panellists went on to explore how innovation could be used to support education in Africa. It was agreed that delivery is one of the most important aspects in this regard. The cost of providing access to content and good quality textbooks is not incredibly high and therefore not a barrier, however, there is a challenge in creating an awareness of information and helping both teachers and students identify what information to look for. In addition, technology can be used to innovate teaching models – we are already seeing examples of this in Rwanda where educationalists in some institutions are from non-traditional backgrounds and are open to learning new things, such as the technology company, Mdela, which is providing education to selected students through its online platform – though in order for this to work on a widespread scale and to have a ripple down effect further down the value chain, there must be a top-down approach and technology must be used appropriately in this context.

The future?

Digital should become a business imperative. In order to facilitate this, businesses must use the existing landscape as a starting point coupled with a disruptive but considered and compassionate approach to providing solutions and also in a manner which promotes local content within the local context. It is also important to appreciate that markets across Africa are incredibly diverse and a one-size-fits-all approach is neither appropriate nor sustainable.

A key takeaway message is that at the core of technology is human-capital. We must learn to create ways for technology to work for the people who they are supposed to serve in order to get mass adoption of it in Africa and this will involve persuading consumers that the technology is reliable and can meet their needs but also that it is secure and is operated with integrity.

A new era for Mining in Africa

Understanding the present and securing the future

No industry is more closely linked to the African continent than mining. Knowledge and exploitation of Africa's vast riches has captured the imagination of entrepreneurs and adventure-seekers since the mid-19th century. But have these treasure chests been emptied or is there still much more to play for?

And yet extracting the continent's vast natural wealth, fuelled by a seemingly insatiable thirst from Western consumers, remains a high-risk gamble for many investors. So what is the current state of the African mining industry? And perhaps more importantly, what does the future hold for mining adventurers?

This panel, consisting of John Teeling, Executive Chairman, Botswana Diamonds P.L.C.; Michael Schottler, Lead Litigation Counsel, Anglo American; Jeremy Wrathall, Managing Director, Cornish Lithium Ltd; and Judith Mosely, Business Development Director, Mining, Rand Merchant Bank, gathered to assess the current state of the African mining industry and to consider what the future bring. The session was moderated by Kevin Pietersen, Partner in Energy and Natural Resources at Hogan Lovells.

Emerging from troubled times?

Growth in demand for goods that rely on rare (and not so rare) metals among Western consumers and increasingly those in the growing middle classes of China, Asia and South America continues to grow exponentially, with Africa continuing as a major source of much needed and sought after commodities. Not that you would know it if your only source of information was metal prices and mining investment.

Over the last five years, the mining industry has seen a major slump. The last Initial Public Offering of a mining company on the London Stock Exchange, traditionally one of the world's major public markets for mining companies, took place in 2011. However, since 2016, the tide seems to be turning with minerals such as lithium and graphite seeing price increases of up to 50%. Does this mean a boom in commodities is coming back?

"Don't jump to that conclusion", warned Teeling. "What we are seeing across the industry is a focus on deconsolidating, deleveraging, reducing capital expenditure, and cutting dividends". Much of the recent growth in African mining is coming from smaller players, with industry giants, such as Rio Tinto cutting production and investment in Africa.

"The bear market for African mining, at least in its current length and depth, is a new phenomenon", according to Mr Wrathall. "This industry has never before seen a five-year bear market. The cycle of boom and bust in the mining industry has historically been very predictable. If the bust began at noon and the recovery began four hours later, in my view we are roughly at six now. The industry is looking at what to do next, how it should behave and how it should get exploration funded".

New metals in demand, even if financing is harder to come by

While demand for copper and iron ore has recovered, the panel was particularly optimistic about demand for rarer metals with specialist uses. Africa contains some of the world's largest deposits of critical metals like cobalt and rare earth metals. Of particular interest was the demand for lithium and other metals which are crucial for electric car batteries.

"We are going through a complete industrial revolution," said Mr Wrathall, "...and I don't think that the demand for lithium is in any sort of bubble. If [the car industry] went all electric, lithium consumption would grow by about 2,500%, and there simply isn't enough. Mining companies have to respond, and Africa is particularly rich in these sorts of metals".

Currently, the batteries to run electric cars requires up to 10kg of lithium per battery. Much of the world's production and reserves are in South America, with the largest concentration in Bolivia, which has political and logistical problems of its own. The potential demand for lithium makes investment in African exploration tempting, even if, according to the panel, we still know little about lithium deposits in Africa.

The situation the panel is currently seeing in funding terms is that most of it is being actively sought by smaller companies rather than the major mining conglomerates. Ms Mosely noted that for smaller or local mining companies, finding the right funding remains very difficult. "Banks are still afraid of junior mining companies because of the challenges they face in a downturn. Larger companies, because there are so few of them and so many banks, are able to get much more competitive pricing [on funding]".

Mr Teeling was able to address these issues from the perspective of an entrepreneur. "Why go to Africa? Because that's where the resources are. Drilling for diamonds is relatively cheap, but new metals require joint venture partners and the best local geologists. Exploration can be a hard sell as a joint venture with major mining corporations, because in a sense we are selling hope, not facts. The major mining companies [don't make good partners] because they are controlled by accountants who demand Internal Rates of Return of 15% or more in an area where there is a high chance of failure."

The future? Investment banking retreats, China advances

Trying to predict the future in any industry is hard enough. Mining is particularly hard because as we have seen demand for consumer goods that need mined minerals is booming; yet at the same time the industry itself has been in a five-year slump. Some of that slump can be attributed to the investment banking collapse of 2008 and the subsequent reluctance of bankers to take on risk.

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However, the panel seemed unanimous in its assessment of the most important factor in the future of mining investment in Africa: China.

"Much depends on China," said Ms Mosely. "China is still investing aggressively into Africa, in the Democratic Republic of Congo, for example, and they continue to invest through the cycle. They are very committed to looking at the broader picture and long-term need ... but if China implodes economically, the commodity markets will be severely impacted".

Mr Teeling concurred about the importance of China, but does not believe it will have such a devastating impact on African mining. "I think that at some stage China is going to have a hiccup – it's a question of sooner or later – but I don't think it will affect the rest of the world so much".

He concluded: "Remember that by 2035 another 3 billion people are expected to become what we would now call "middle class" people in Indonesia, Pakistan, Brazil, India and China. I am very confident that although we are going to go through hiccups the fact that these people will want everything we have the world will survive. The trends that are driving the mining industry now are going to continue, very dramatically".

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