Standard Chartered

press release

Unleash Africa's inclusive growth potential

5th August 2014

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Euphoria abounds around Africa nowadays, and rightly so. Seven of the world's ten fastest-growing countries are there. Recognizing the potential and importance of the continent, US President Barack Obama is convening a US-African Leaders Summit this week.

However, amidst all the positive news, there is a risk of overlooking the bad. According to a recent report on the UN Millennium Development Goals**,** the number of people in Sub-Saharan Africa who live in extreme poverty increased by more than 40%, to 414 million, from 1990 to 2010. The region still accounts for four out of five deaths of children under the age of five.

Obviously, growth has not been inclusive; the rising tide has left many boats behind. This is simply unsustainable.

Creating a sufficient number of rewarding jobs is a substantial challenge

Roughly 12 million people will enter the African workforce each year in the next decade, but, even today, young people account for 60 per cent of all unemployed. Creating a sufficient number of rewarding jobs is a substantial challenge.

The answer to that challenge will vary by country, but it rests on reviving and reinforcing the manufacturing, agriculture, retail, and hospitality sectors, as well as technology-related businesses. We have already seen the positive impact that innovations such as mobile wallets have had on facilitating payments and commerce, and on creating a new class of jobs in Africa.

Even more can be achieved by making broadband and technology more abundant and affordable. After all, if India can, from scratch, create successful process outsourcing businesses that serve clients thousands of miles away, why can't Africa?

Facilitating growth in the informal sector is imperative

Even under the most optimistic growth scenarios, a decade from now about half of Africa's workforce will still be in the informal sector, including micro and small enterprises. Facilitating the informal sector's growth and improving its productivity by widening access to finance and technology is imperative. At the same time, Africa's education system must focus on producing skilled and employable people.

Notwithstanding the emergence of a few world-class manufacturers, such as Nigeria's Dangote Cement, the contribution of manufacturing to GDP in Africa has declined to just 13 per cent. But rising labour costs in parts of Asia, particularly in China, present an opportunity for Africa to reverse this trend.

Similarly, with 60 per cent of the world's uncultivated arable land, Africa has a huge opportunity to feed the world's growing population and promote agriculture as a business. Yet, in countries like Nigeria, as the government has recognized, agriculture has gone backwards.

Africa needs to focus on addressing its infrastructure deficit and the fragmented nature of its markets

To tap its potential in manufacturing and agriculture, Africa needs to focus on addressing its infrastructure deficit and the fragmented nature of its markets, as well as on improving regulatory quality, strengthening government effectiveness, and enforcing the rule of law – the basic building blocks of any development strategy. Investor-friendly policies also have a role to play.

Africa desperately needs to improve its hard infrastructure, such as power stations, airports, ports, roads, and railways. Nigeria, Africa's largest economy, generates less electricity than the tiny island state of Singapore, despite possessing huge gas reserves. In the absence of a high-quality air-transport network, the preferred route between many African capitals is now via Dubai on Emirates Airlines.

Investors need regulatory certainty

China has shown how quickly progress can be made on infrastructure. But, unlike China, Africa's domestic savings rate is a meager 15 per cent of GDP, grossly inadequate to finance the infrastructure gap.

So Africa needs foreign capital. Infrastructure projects, by their very nature, are long term and exposed to political vicissitudes, but investors need regulatory certainty. Transparent bidding and contract terms, clarity about tariff structures and payment mechanisms, unambiguous customs regimes, and confidence about property rights are essential ingredients, as is a judiciary that is incorruptible, effective, and efficient.

The formation of regional trade blocs is a positive step, but more determination and urgency are required in implementation

Achieving the necessary scale is possible if existing barriers to free movement of goods and services across national borders are reduced or eliminated, and companies have the freedom to act on a regional basis.

Currently, intra-Africa trade accounts for less than 15 per cent of total trade – the lowest of any continent. The formation of regional trade blocs in Southern, East, and West Africa is a positive step, but more determination and urgency are required in implementation.

The medium-term goal has to be a ‘true’ African Union that acts more like the European Union in terms of guaranteeing the free movement of goods, services, and people. At the very least, as investors in Africa would attest, visa regimes must become more business-friendly.

A pan-African exchange could be part of the answer

In addition to its low savings rate, Africa suffers from a multiplicity of sub-scale capital markets (the sole exception is South Africa). The answer may lie in creating a pan-African exchange to trade equities and bonds. This would give local entrepreneurs access to finance as well as facilitate direct access for foreign portfolio investors to African companies.

Providing exit options where none now exist could also seed an explosive growth in private equity capital. Arguably, Africa would be better served by raising more equity than debt.

By ending state monopolies over telecoms, Nigeria has created more than three million jobs in this sector alone over the last decade. Is there a broader lesson to be drawn about curtailing, if not ending, the role of state-owned enterprises? Or should Africa follow the Chinese model of simultaneously nurturing – and perhaps even favouring – such firms? The jury is still out. It is clear, however, that Africa needs a policy framework that redefines the respective roles of the government and the private sector.