For professional use only

Will Africa leapfrog?

Accelerated development is set to lift the continent's economies with big implications for financial markets and Sustainable Development Goals

Ton Dietz



September 2021

NN investment partners

www.nnip.com

Will Africa leapfrog?

Abstract
With a fast-growing population, massive ongoing urbanisation and constant innovations across the continent, Africa looks poised to leapfrog other emerging markets over the next few decades in terms of economic development. This hopefully will lead to constructive flows from the private sector that support overall financial dynamics and help governments to fulfil their obligations, encourage corporations to act responsibly and in a spirit of the Sustainable Development Goals, and inspire all economic players to promote "inclusive development for all" (UN, 2015). The impact of Covid-19 will be considerable, though, with potentially material consequences for health and economic growth. In the long run, the pandemic could strengthen the role of the state in Africa. Professor Ton Dietz was invited to write this paper for NN Investment Partners.

The view from NN Investment Partners:
How bond investors can access the Africa opportunity

- While Africa's domestic bond markets remain relatively under-developed and fragmented, Eurobonds offer a convenient way for international investors to gain exposure to the continent without taking on additional currency risks or administrative burdens.
- Green and social financing is an interesting dimension for investors considering opportunities in Africa, with several countries issuing social and green bonds in recent years.
- Africa's relatively high growth rates are underpinned by favourable demographic trends, technological leapfrogging, an abundance of natural resources, and deepening financial markets.

Click in this box to see the full view from NN Investment Partners

Prof. Dr. Ton Dietz is emeritus professor of African Development at Leiden University, and former director of the African Studies Centre Leiden (2010-2017). Until March 2021 he was co-chair of the Leiden African Studies Assembly, and co-responsible for the Africa 2020 Year in Leiden, and particularly for the Conference "Africa Knows!", 2-3 December 2020 in The Hague, and as a mixed virtual/physical event between December 2020 and February 2021. He co-organized the first two Africa Works! Conferences together with the Netherlands African Business Council (2012 and 2014). Before 2010 Ton Dietz was professor at the University of Amsterdam (Human Geography) and director of the research school for development studies CERES (office in Utrecht, and also a part-time professorial position there in 2002-2007). He studied in Nijmegen (1969-1976), and defended his PhD at the University of Amsterdam in 1987. He received an honorary doctorate from Moi University in Kenya in 2007, and a Lauréat d'Honneur from the International Geographical Union in 2013. He is an officer of the Order of Orange-Nassau, and he received the Medal of Merit ('Ereteken van Verdienste') from the Netherlands Ministry of Foreign Affairs. His cv and publications can be found at https://www.ascleiden.nl/organization/people/ton-dietz.

Preamble

A first version of this paper was written in late 2019, before the Covid-19 pandemic. This new version (written in July 2020, and finalised in August 2021) also reflects on the potential impact of Covid-19 on the prospects of Africa leapfrogging to new levels of innovation and economic prosperity.

Introduction: the leapfrogging argumentation

In 2017, the World Bank Group (interestingly, together with the Chinese Development Bank) published a paper with a question mark: "Leapfrogging: the key to Africa's development?" It also carried a subtitle with an optimistic twist: "From constraints to investment opportunities". The World Bank is not the first organization supporting an optimistic vision about Africa's future. In 2012 and 2014, the African Studies Centre Leiden and the Netherlands African Business Council started bi-annual "Africa Works!" conferences, approaching Africa not in the first place as a continent of problems and challenges, but as a continent of opportunities and rapid changes. Over the last few years, exclamations by key pan-African agencies, like the African Union in its Agenda 2063 strategy and the African Development Bank in its High-Five Priorities strategy, also show great optimism about Africa's potential to jump to much higher levels of economic activity. They foresee that Africa is starting to make use of the new technological opportunities (often called the "third" and "fourth industrial revolution" – the third related to the breakthrough of digital communication; the fourth to robotics, artificial intelligence and the like) to catch up with the rest of the world, and even become home to some of the world's most interesting innovations, like MPesa mobile payment in Kenya and elsewhere (Mbita, et al., 2015, also see Gross 2019). In South Africa, Jakkie Cilliers, from the Institute for Security Studies, recently published an in-depth analysis connecting the future economic prospects to the big picture of Africa's demographics, called "Getting to Africa's demographic dividend" (Cilliers, 2018). Also that fits in an argument that the African Studies Centre Leiden has been trying to make for about ten years: from "Silverlining Africa" in 2011 (see Dietz, 2011), to many of its infosheets and thematic maps (see https://www.ascleiden.nl/content/ascl-thematic-maps; and https://www.ascleiden.nl/content/ascl-infosheets), and also the farewell lecture of Ton Dietz (Dietz 2017), and a Dutch-language contribution in Dietz 2020. Together with many African and European colleagues, the Leiden African Studies Assembly has successfully organised a major online conference about the rapid changes in Africa's knowledge infrastructure, Africa Knows!, as the last element of the Africa 2020 Year in Leiden and The Hague (www.africa-knows.eu; December 2020-February 2021).



Quotations from the World Bank's "leapfrogging" paper:

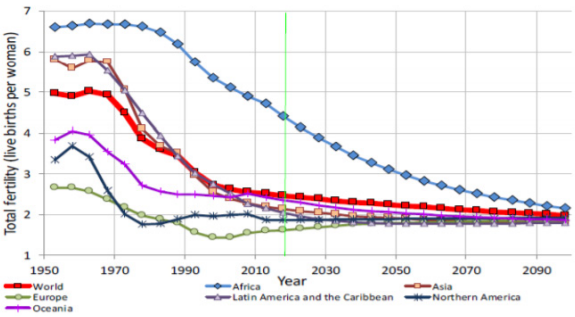
"Despite the significant challenges the region faces, this book presents evidence of leapfrogging experiences in Africa. They demonstrate that with the right governance, attractive business climate, and proactive policies, leapfrogging can and does occur across all sectors. Interestingly, various innovations, such as mobile money and pay-as-you-go off-grid solar, were spawned in Africa, and are spreading to other developing regions. This makes Africa very attractive as a test-bed for technological innovation and adaption" (p. xiii).

"It can be inferred from theory and historical evidence that Africa can leapfrog through innovation and technology. Several recent examples from the region confirm this. Leapfrogging is evidence of a quick jump in economic development and can include skipping stages. Examples of leapfrogging include a significant rise in access to electricity, a huge expansion in school enrollment, a notable improvement in financial access, and a prominent spike in agricultural production" (p. xviii).

"Financial markets in Africa are considerably less developed than elsewhere in the world, according to virtually all indicators of financial development. In Sub-Saharan Africa, only 34 percent of those ages 15 years and older have an account at a formal financial institution. Most African stock markets are quite thin, with low levels of liquidity, and there is relatively low private equity penetration .... Nevertheless, there is an advantage for emerging markets more generally, and particularly for Sub-Saharan African countries in pursuing financial innovation, to trigger the transformation for leapfrogging in the financial sector. Conventional financial services have room to be more inclusive and innovation can offer viable services to those at the bottom of the pyramid. Moreover, development of the formal financial services industry will expand access to finance, and innovation in the financial sector is very critical in this regard" (p. xxxiii-xxxiv).

Africa's demographic changes

Figure 1: Africa's position in the global demographic transition



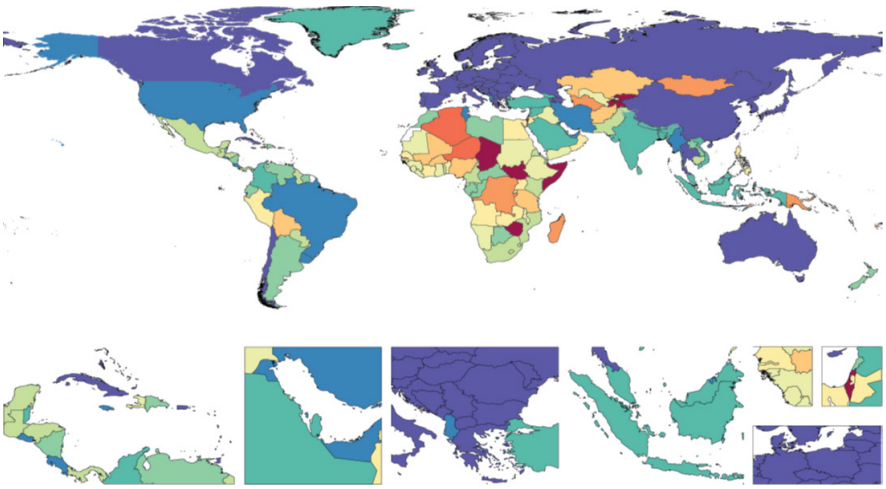
Source: Total fertility trajectories for the world and regions, 1950-2015 estimation and 2015-2100 projection (medium variant) Fertility in the future. Source: United Nations. World Fertility Report 2015, p. 6.

Africa's population will expand massively over the coming decades. And this will happen despite the fact that Africa also is experiencing a demographic transition. But, as Figure 1 shows, Africa is currently the only continent with fertility levels considerably above replacement levels of about two children per woman. There are various competing forecasts, but most sources predict a population of at least 3.5 billion towards the end of this century, and some even much higher; up from 150 million (or less) in 1900, 550 million in 1950, and 1.3 billion today. Even if a combination of driving forces for more rapid demographic transition would result in faster changes towards fewer children per woman, the current number of young girls is so high, that that alone will result in further rapid population growth.

A very recent study (Vollset et al., 2020) dares to question some of these forecasts for a very numerous African population in 2100. They have recalculated various relevant variables, and for Sub-Saharan Africa as a whole come to predictions for fertility rates in 2100 between 1.42 and 2.16, with an average of 1.73, which would be considerably below replacement rate. They also calculated when they expect countries (all over the world, but including African countries) to drop below the replacement level. Figure 2 gives this overview.

This study recalculated the expected population for Africa as a whole in 2100 as between 2.7 billion and 4.5 billion, with an average expectation of 3.5 billion. In addition to these predictions, the study did something remarkable as well: the researchers assumed that in 2030 there would be universal secondary education (so also everywhere in Africa), and that there would be universal coverage of contraceptive needs, and then they recalculated the fertility and population predictions for 2100 and the years in between. They call that the SDG (Sustainable Development Goals) pace scenario. In that case, Sub-Saharan Africa's fertility rate would have dropped much more: to between 1.18 and 1.89 children per average woman (with 1.52 as the in-between level). And hence Africa's population as a whole would "only" be between 1.4 billion and 2.6 billion (average prediction 1.9 billion) in 2100. However, they realistically add: "many conditions are not on track to achieve these goals", and they ignore the political and religious factors that go against a direct or indirect robust "slow-down" population policy. Whatever it takes: Africa will experience further population growth, will continue to have a relatively young population, and will gradually move towards a situation of a "youth bulge", or what economists call a "demographic dividend".

Figure 2: Map of the year that the net reproduction rate is predicted to fall below the replacement level (Vollset et al., 2020)

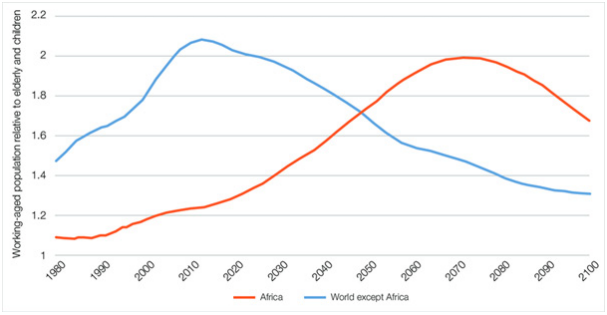


Before 2000: dark blue; 2000–09: middle blue; 2010–19: light blue 2020–29: dark green; 2030–39: middle green; 2040–49: light green 2050–59: yellow; 2060–69: light orange; 2070–79: middle orange; 2080–89: dark orange 2090–99 and 2100 onward: brown.

Source: https://www.thelancet.com/article/S0140-6736(20)30677-2/fulltext

Africa's median population age is below 25 years old, and in most countries below 20 years old (with Niger and Burkina Faso only 17...). Cilliers' demographic dividend approach shows that for Africa as a whole the relationship between working age people (15-65) and "dependents" is gradually changing from 1.1 in 1980, via 1.3 now, to 1.7 around 2050. In 2050, Cilliers (p.8) predicts that the rest of the world (taken together) will be losing that advantage, see Figure 3.

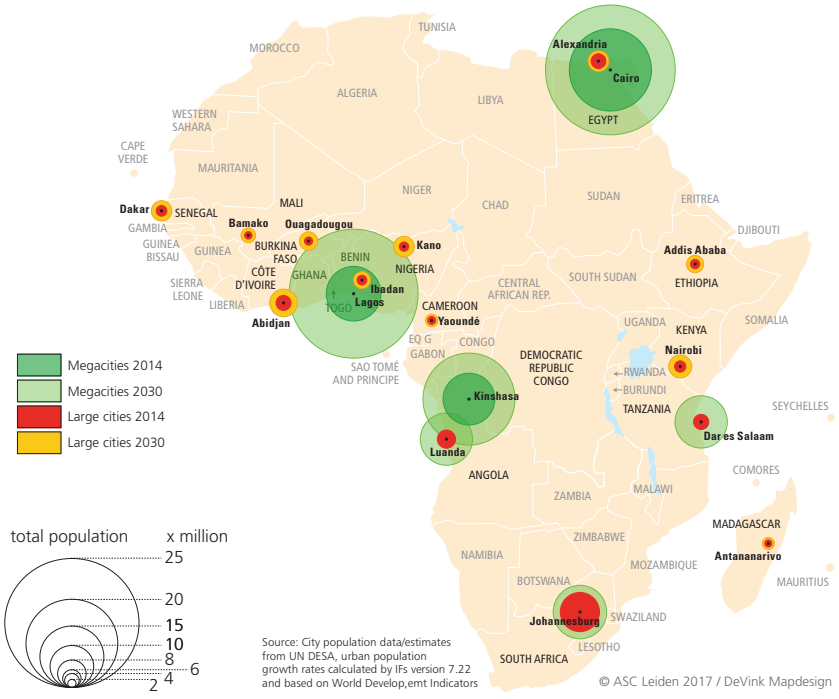
Figure 3: The demographic dividend, Africa compared with the rest of the world, 1980-2100.



Source: Cilliers, 2018: 8

This magic figure of 1.7 is generally used to point to a situation where a demographic dividend can potentially be harvested, although good policies need to be in place to really reap the benefits of this "growth-stimulating" demographic structure. Currently, in Africa some countries have already passed that threshold (e.g., South Africa, Tunisia), and others are rapidly approaching it. These are also countries where observers also point at the dangers of a "youth bulge": many young people entering the labour markets, for whom there is no employment, and certainly not at the levels of their aspirations. The unfulfilled promises of the demographic dividend in these countries may and often does result in massive unrest and radicalisation, violence and criminality, and potentially in mass outmigration to greener pastures, mainly to nearby cities, but also to neighbouring countries and far-away destinations (see Dietz et al, 2017a). The current policy emphasis, both in Africa, and in Europe, is to create massive youth employment opportunities to avoid this negative scenario. Cilliers suggests four major policies to speed up the demographic transition in Africa: much better availability of anti-conception, much higher emphasis on getting girls to school – and at least ten school years for each of them; further emphasis on improving water quality, sanitation and basic health care; and more serious attention among governments in Africa to put the population issue high on the political agenda (and, so it is implied, to quicken the demographic transition to lower fertility levels). Looking at the current debates about these issues, it is important to add four other elements. Urbanisation generally results in a rapid change in attitudes among couples about the number of children they want to have, so urbanisation should be encouraged (and a romantic nostalgia for "keeping people in the rural areas" should be avoided). Dependable old-age care beyond own children brings down the urge to have many children, so pension schemes and other old-age security policies are important. A guaranteed basic income (as nowadays discussed in countries like Kenya and South Africa) can also improve the investments in the quality of children, and not in quantities. And: it is not only governments that can play roles to change demographic behaviour, opinion leaders (including religious leaders) are important as well.

Figure 4: Africa's current and emerging megacities and large cities, 2014 and 2030



Source: Dietz and Akinyoade, 2018.

Next to the rapid population growth in Africa as a whole (and particularly in Western, Central and Eastern Africa), and a gradual movement to a situation with a potentially good opportunity to reap the demographic dividend, there is another major demographic development that has a lot of repercussions: large-scale urbanisation (see Figure 4). And if that is connected with a massive internal migration from inner rural areas to coastal cities, we can conclude that Africa's demographic geography is completely changing.

Until the 1960s, Africa was very much a rural continent, with only 20 percent of its population living in cities, and most others living agricultural lives in villages or in scattered homesteads and hamlets. Currently more than 40 percent of all Africans are living in urban agglomerations, and some of those built-up areas have become multi-million megacities. Expectations are that between 2020 and 2050 the urban population in Africa will grow from 500 million to close to 1.4 billion. And what is also a realistic perspective is that Africa will get huge urban belts, like a 150 million conurbation between Abidjan and Lagos. Of course, this brings many challenges: feeding all those urban people is one of them, in a situation that climate change predictions for major parts of Africa see increasing food production stress (see Dietz et al, 2017b). Giving all these urbanites secure shelter is another major issue, in a situation where, particularly along the coasts, climate change-induced calamities will strike once in a while. But probably the most challenging of all the challenges is the provision of adequate employment and income opportunities in these vast cities, particularly to what Alcinda Honwana has called: Africa's "Youth in Waithood" (e.g. Honwana, 2014). However, the massive urbanisation also creates a lot of new opportunities. It is already very visible around Africa's big cities, that hinterlands are rapidly changing from a combination of subsistence and export-oriented agriculture, to becoming providers of food, drinks, energy, water, timber, and many other commercial goods to cater for an explosively growing nearby urban demand (Akinyoade et al., 2014a). Also, the combination of youth and technology – many eager young people, often with much better educational levels than their parents and grandparents ever had, and currently mostly with access to smart phones with internet, that can also be used for financial services – offers lots of opportunities for break-through innovations. And so there are many new opportunities for entrepreneurship and business (see Lem et al., 2013). These are certainly not coming only from abroad. All over Africa indigenous entrepreneurs are coming up, and some are in the process of establishing huge conglomerates, and "African multinationals" (Akinyoade, et al., 2017).

Changes in the social sector

Although globally speaking Africa's social performance (education levels, health care, water provisioning) is still lagging behind, long-term data show major improvements between 1960 and today. Africa's average life expectancy levels have moved up from the low 40s to the high 60s, Africa's literacy rates from less than 20 percent in most countries around Independence, to more than 60 percent nowadays, and primary school attendance has become almost universal in many African countries (Akinyoade et al, 2014b; Dietz et al, 2017c), while a massive expansion is currently taking place of secondary and tertiary education. Many participants in and observers of Africa's knowledge institutions complain about the commercialization, fraud, overstretching, problematic teaching and research environments, lack of transparency, and lack of academic freedom

that they often experience. However, despite all these pitfalls, the numbers of relatively well-educated, and often very innovative young people with school and university degrees are growing very rapidly, and because only few can enter the "formal system", many have become small-scale knowledge entrepreneurs, and innovators. The access to internet, and the creativity in using it, opens a world of online learning and action opportunities, that have never before been so inviting (Brinkman & De Bruijn, 2018, but also see: Alzouma, 2005). Private think-tanks, private universities, online ("open") universities and courses, new online publication outlets, and online forms of (investigative) journalism open a whole array of new possibilities to earn a living, and to influence the social environment.

Health care has also been a big area of progress. It is possible that Westernised health care (larger hospitals etc.) and traditional African practices (often religious or spiritual, using herbal remedies) could complement each other, enabling increased access. There are also many experiments going on to "assist doctors and nurses in the bush" by digital support systems, and to deliver medicine and health tools by drones. The digital possibilities also enable much faster and much more sophisticated forms of research and diagnostic activities (for instance Lalaye et al, 2019). The same is true for veterinary care, and for agricultural support systems in general.

Changes in the political economy ....

Africa's economic performance between the late 1990s and 2014 has been astonishing for many observers (Dietz et al., 2017b). Although a lot of growth can be attributed to the global demand for Africa's natural resources (and China's demand in particular), local (urban) demand has also been growing very fast. There has been a rapid expansion of the IT sector, the entertainment sector, food production, energy production (including major accomplishments in green energy, like hydropower, geothermal energy, windpower and solar systems) and the building industry, to name but a few. Morocco, South Africa, and Kenya are among the leading innovators, and observers even speak about "Silicon Savannah" in an area southeast of Nairobi, and about the "Silicon Cape" for Cape Town in South Africa (e.g., De Falco, 2019).

There is a growing single market within the African region, and in its major subregions, making the continent a formidable trading partner. There are also plans for an African monetary union similar to the EMU, which will strengthen its currency, and make trade and innovations easier (e.g., see Asongu et al., 2017). And governments are gradually moving away from the (often enforced) extreme forms of globalisation that they had to accept from the 1980s onwards, and they are becoming more bold in establishing better protection for their own agricultural and industrial products. There is also an urge among some governments to become "developmental states" (e.g., Shaw, 2016), and among some metropolitan governments to form "urban growth coalitions", or "developmental cities", sometimes even with far-reaching goals of greening their local economies and environments, and making their economies more sustainable and more socially acceptable. Also, businesses (some, not all) are internalising elements of social responsibility, not only for their own activities, but also for labour and environmental conditions in related value chains. The slogan "profit, people, and planet" becomes more than a slogan. Next to large-scale foreign-supported investments in transport and communication infrastructure (with a lot of Chinese involvement), many initiatives have grown around public-private partnerships in large-scale infrastructure provision. Examples in the energy sector are the enormous investments in Morocco's solar power industry (Kousksou, et al. 2018), and Kenya's investment in the biggest wind farm in Africa (Kazimierczuk, 2019). In the academic literature, there is already a long history of attention to Africa's potential to use the green energy sector for "leapfrogging" to much higher levels of economic activity and prosperity (e.g. Murphy, 2001, Sandor et al., 2013, Amankwah-Amoah, 2015, Batinge et al, 2017). Of course, many African countries still mainly rely on oil and gas (and their rural populations still very much on wood and charcoal), and new oil and gas finds (e.g. in Tanzania-Mozambique) promise a new wave of big investments in non-renewables within Africa, but African countries recognise the need for renewable energy and some have made significant progress in this area.

The recent growth of a substantial urban-based middle class in Africa, and of a growing group of ultra-rich families, puts a lot of pressure on Africa's political class (which, by the way, often has become part of that ultra-rich class). Africa's leadership, both in politics, and in business, religion, and the entertainment/creative activities, still is a hotchpotch of traditional, often autocratic styles of leadership, and more democratic, more participatory styles. With ups and downs, state bureaucracies open up to popular demands for greater freedom, and more open societies. Of course, corruption and unhelpful bureaucracies are still a fact of life, but some (not all) African countries have made great strides to cut back corruption, and become more transparent. And it has recently become a priority to fight these economic ills in circles of the African Union and the African Development Bank.



One of Africa's greatest challenges is the need to feed the rapidly expanding (urban) population. Between 1960 and 2015, Africa's food production more than compensated for Africa's tripling population, but food demand has risen even more, resulting in increasing food imports (Dietz et al, 2017b). The changes in the origin of these food imports are a major geopolitical issue, with a move away, as chief providers of grains (and of food aid), from North America (and Europe, particularly France) to Russia and the Ukraine. Climate change adds to the long-term prospects for Africa's growing dependence on

Russian grain, especially as climate change makes it possible to grow more crops in Siberia.

… and in big geopolitics

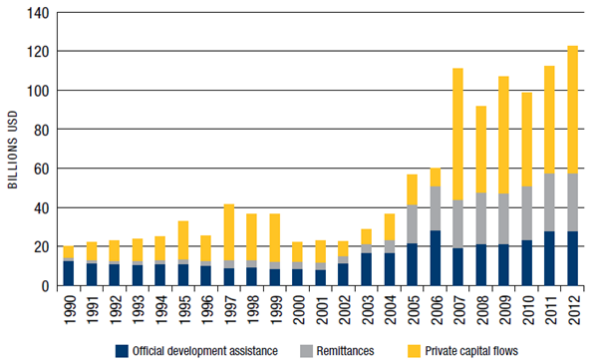
If we go back to the debate about the "demographic dividend", it is important to ask the "bigger geo-political questions". When the United States was one of the first countries to reap the benefits of a relatively large demographic dividend, first in the 1940s and later from the 1970s onwards, its central state facilitated an enormous innovation concentration in the military-industrial complex, which later formed the basis for private sector expansion in the space, aviation and car businesses, the computer business, the IT sector, internet-based businesses, and the social media. Assisted by, and under political tutelage from the USA, South Korea and Japan did the same from the 1970s onwards. China followed from 1990 onwards. India from 2000 onwards. And the last two countries started to do it, seeking more autonomy from the world leaders of technology, although with some coordination efforts with Russia in some fields. The role of the state, and particularly of the military complex within the state, has been and will be crucial to speed up technological innovations, and the financial, and organisational scale needed to come to breakthroughs is enormous. Africa is currently divided into 54 different state entities, and the African Union, as well as the African Development Bank, are relatively weak entities financially, and also highly dependent on foreign funding and support (e.g., see: Uche and Leliveld, 2020). Many observers lament the weak states in Africa, and point to the major changes that are needed to make states more effective (e.g., Abbink, 2020), despite recent changes in the direction of "developmental states", by states like Rwanda, Ethiopia, Kenya, and others. Among his seven factors concerning Africa's political future, Abbink mentions the weak continental unity and the intra-continental competition. Indeed, greater unity, and less intra-African competition are needed to reap the demographic dividend, and to do so in ways that strengthen Africa's democratic ability to convince its youth to avoid violence and invest in innovations. However, what is also important is the position of the military in African states, and in the African Union, and particularly how they will succeed to build a strong Africa-owned military-industrial complex. For the time being, this is still an illusion, but some of Africa's leadership already manoeuvres skilfully in the multi-polar world. The growing orientation to China for investments, India for technology, and Russia for food and weapons, together with the inability of the European Union and the United States to design a fruitful and acceptable "Africa policy" can result in a stronger negotiation position, and gradually also in more intra-African solutions for Africa's problems. And it can result in more autonomous (military-industrial and other) forms of breakthrough innovations.

Changes and opportunities in the financial sector

In a very illuminating thematic map, Marion Eeckhout, in 2014, summarized the substantial changes that have taken place in Africa's government finances, and Africa's access to financial capital in general, between 2000 and 2010. In total, access to financial capital in Sub-Saharan Africa increased from USD 25.6 billion to USD 80.8 billion during this decade. Growth has been high for both public and private external capital (including remittances), but particularly very high for domestic (mainly tax-based) capital. Many African governments succeeded in getting their tax revenue systems working. In 2018, remittances to Sub-Saharan Africa further increased to reach USD 46 billion (World Bank, 2018), but countries like Egypt (USD 25.5 billion, Egypt Today 2019) and Morocco (USD 7.4 billion, Morocco World News, 2019), both in North Africa, add considerable amounts to the figure for Africa as a whole.

A dynamic picture (see Figure 5) was presented by Brookings in 2015, showing the major changes in foreign financial capital flows to Africa between 1990 and 2012.

Figure 5: Foreign capital flows to Africa 1990-2012



Sources: IMF, World Bank and authors' calculations

In 2015, the World Economic Forum, highlighted very promising trends for Africa. Foreign Direct Investment to Sub-Saharan Africa had increased to USD 42 billion (North Africa received USD 12 billion). It is worth quoting some of its main points: "The role of foreign direct investment into the continent remains significant: on average the government budgets of African countries currently depend on corporates domiciled in other countries for 14% of their funding … African investors are … increasingly investing more in other countries. Investors from the region put seven times more money into primary greenfield (starting from scratch) FDI projects, at USD 48 million, and grew investment in services by USD 100 million to USD 9.49 billion. … of the total USD 13.39 billion that African investors sunk into global greenfield projects, USD 10.2 billion were in Africa".

However, it must be said that domestic tax evasion remains high, and commentators have argued that Africa has been a net exporter of financial capital for many decades. In a blog, published in 2018, Chibuike Uche, holder of the Stephen Ellis Chair in the Governance of Finance and Integrity in Leiden, writes: "In 2015, … African countries received USD 162 billion, mainly in loans, aid and personal remittances, while USD 203 billion was taken from the continent. About a third of this (USD 68 billion) was taken out in capital flight mainly by multinational companies deliberately misreporting the value of their imports or exports to reduce tax. This is more than the combined amount Africa received as remittances (USD 31.2 billion) and loans to its various governments (USD 32.8 billion). It was also more than four times the net Foreign Direct Investment Equity that entered the continent in the said year (USD 15.8 billion)".

Despite these sobering notes, financial markets in Africa have already expanded significantly. And financial resources not only come from Europe or North America, but increasingly also from China, India, and/other emerging economies. Also, the

local stock markets are expanding rapidly. There are 37 stock markets across the continent today, in 28 countries (https://en.wikipedia.org/wiki/East_Africa_Exchange). Eleven new stock markets opened in the 1990s, six between 2000 and 2010, and another eleven after 2010. Africa's financial markets are booming, and government bonds in Africa have become interesting investment opportunities. Mu et al (2013), in an IMF Working Paper, did an analysis of the developments in bond markets in Sub-Saharan Africa, and found that government bond markets grew from 17.3% of GDP in the 1990s to 18.8% of a much higher GDP in the 2000s, while corporate bonds increased from a much lower level: from 0.65% of GDP to 1.1%. Henderson, in 2018, wrote that some African governments offered the world's highest interest rates on their bonds: Egypt with 19.4% over six months, Kenya 11.1% over two years, and Namibia 8.1% over one year.

Africa is now also exploring ways to increase financial support to sustainable development options. The African Development Bank has started its Green Bond Programme recently, and it writes: "The AfDB Green Bond program facilitates the achievement of the Bank's corporate priority of green growth through the financing of eligible climate change projects. Investors can make a difference with their investment by financing climate change solutions through AfDB's Green Bonds" (AfDB, 2019). In November 2019 the first Africa Green Bonds Summit took place in London, and it is worth quoting its mission: "With renewed commitments to combat climate change, institutional investors whose assets under management are expected to rise from USD 93 trillion to USD 140 trillion 2019, are increasingly demanding green projects and are looking to developing countries where climate-smart investments are most needed for long-term assets, high returns and positive impact. In Africa, combating climate change requires substantial funding and addressing the existing mismatch between projects, bonds and institutional investors. In fact, the UNFCCC estimates that about USD 1 trillion is needed for both climate mitigation and adaptation financing, and as a number of regulators and governments are already looking with keen interest at green bonds as a promising tool for funding their transition to a low-carbon economy, engaging institutional investors to explore the investment opportunities is thus, urgently needed to close the existing gaps and achieve a greener Africa. The Africa Green Bonds Summit will bring together the market participants to: a) Explore the latest developments, potentials and challenges in Africa's green bond market. b) Examine the risks and key risk management strategies; then c) Facilitate investments to LCR projects by connecting investors and third-opinion firm with issuers and decision makers" (http://www.africa-greenbondssummit.com/; also see: https://www.earth-active.com/2209-2/).

Preliminary conclusion: a plea for a more active European green investment policy in Africa

There is a great likelihood that Africa will leapfrog to much higher levels of economic activity, and will become home to many innovative initiatives, many of them "green" ones. This will not happen overnight, and the diversity in Africa is huge, and its challenges immense (see for instance: Fund for Peace, 2019). However, if we take a long-term perspective, high population growth, the "demographic dividend", and massive urbanisation will most probably result in Africa as a whole becoming the world's most attractive economic growth region in the second half of this century, and some African countries already much earlier. Dutch and European investors: throw away your shackles of ignorance and reluctance, and become part of the global pioneers to these prospects, and do so particularly by connecting to the emerging green bonds in Africa, and its great potential to become one of the world's leading innovators in that field.



And then there was Covid-19 ...

The first version of this paper was written towards the end of 2019, when nobody was aware yet of the global onslaught of the coronavirus Covid-19. In the early months of 2020, when the virus began to cause havoc in first China, and later Europe, followed by the Americas and major parts of Asia, Africa seemed to escape from the pandemic, although with warning signs in Egypt, Algeria, and particularly South Africa. There were also press reports speculating about Africa's low exposure, with a variety of elements: the youthful population, the low percentage of obese people, many people spending a lot of time outdoors, and in well ventilated indoor places, the genetic composition, the fast responses by African governments, and the alertness in African governments and societies as a result of ebola and other recent dangerous epidemics. But by July 2021, the continent was experiencing a third wave of the pandemic. Covid-19 cases in Africa totalled 6.3 million as of July 22, with 160,000 deaths, according to the Africa Centres for Disease Control and Prevention. After a surge in cases in June and July, the World Health Organization highlighted the low percentage of Africans who have received vaccinations. "Just 20 million Africans, or 1.5% of the continent's population, are fully vaccinated so far and just 1.7% of the 3.7 billion doses given globally have been administered in Africa," the WHO said in July[1].

Besides the health risks that Covid-19 is causing, and the generally inadequate health infrastructure to cope with the severe cases, the economic consequences will also be severe, not only due to lockdowns and other restrictions, but also from the impact of the economic crisis elsewhere on Africa's import and export positions, and on investment behaviour. Some observers already speculated about the massive hunger expected in parts

1 Among many other sources see: https://www.afro.who.int/news/pivotal-point-africas-covid-19-third-wave and: https://en.wikipedia.org/wiki/COVID-19_pandemic_in_Africa.

of Africa[2], or about the major setback expected for reaching the Sustainable Development Goals[3].

It is too early to take a position in this speculative debate, although I also fear that both the health and the economic consequences can be massive, and can indeed set back Africa's prospects by many years.

There are some consequences, though, that already shine through, which might strengthen Africa's prospects in the long run. First there is the global awareness, that is also very visible in African debates, about the importance of strengthening the health sector, and supporting a more robust and more resilient health infrastructure, including a much higher emphasis on increasing the numbers, quality, and status of health workers (and not only doctors, but particularly also basic health workers). Second, there is the realisation of the necessity of a strong state to guide/control its people during these times of emergency, and the importance of solid scientific evidence of the health status of the pandemic. Third, there is a debate in Africa about the need for stronger pan-African coordination of the health sector, and of coping with the economic consequences of the global crisis; and the fact that the WHO is currently led by a fellow African helps in this debate. Fourth, the geo-political consequences of the global differences in the health and economic impact of the Covid-19 crisis – with North America (and Brazil) hit relatively hard, and its leadership exposed as utterly ineffective, and frontrunner China hit relatively only modestly – already is having ripple effects in further African trends of no longer taking "the North" as seriously, and even more "turning East". And finally, Africa's political and economic leadership, and particularly Africa's population, have experienced decades of coping with one disaster after another (particularly between 1970 and 2000), and many have developed a coping behaviour that is resilient to shocks, and probably more so than anywhere else. Muddling through, frugality, and creativity to deal with challenges have been tested again and again, and also this crisis will result in the same coping behaviour. Even if there would be a major economic crisis during the next few years (and I fear there will be), Africa's long-term prospects still are very promising.

2 See: https://www.oxfam.org/en/press-releases/covid-19-50-million-people-threatened-hunger-west-africa (in April 2020), or https://www.voanews.com/covid-19-pandemic/oxfam-pandemic-pushing-millions-brink-starvation (in July 2020).

3 E.g., https://sdgcafrica.org/wp-content/uploads/2020/06/COVID-19-UNPRECEDENTED-RISK-TO-SDGs-IN-AFRICA_Web-Final.pdf (May 2020).

References

Abbink, Jan, 2020, Zeven factoren bepalen de politieke vooruitzichten in Afrika. Clingendael: Spectator https://spectator.clingendael.org/nl/publicatie/zeven-factoren-bepalen-de-politieke-vooruitzichten-afrika

Africa Green Bonds Summit, 2019. http://www.africagreenbondssummit.com/

African Development Bank, 2016, AfDB Accelerates Pace with High Five Priorities https://www.afdb.org/en/news-and-events/african-development-bank-accelerates-pace-with-high-5-priorities-15879

African Development Bank, 2019, Green Bonds Program. https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/green-bonds-program

African Union, 2013, Agenda 2063, Addis Ababa. https://au.int/en/agenda2063

African Studies Centre Leiden and NABC, 2012, Africa Works! 2012, 21st century Trends. https://www.ascleiden.nl/news/africa-works-21st-century-trends

African Studies Centre Leiden and NABC, 2014, Africa Works! 2014, Towards new partnerships. https://www.ascleiden.nl/news/international-conference-africa-works-creating-new-partnerships-nabc

Akinyoade, Akinyinka, Wijnand Klaver, Sebastiaan Soeters & Dick Foeken (eds.), 2014a, Digging Deeper. Inside Africa's Agricultural, Food, and Nutrition Dynamics. Leiden: Brill, African Dynamics 13. https://openaccess.leidenuniv.nl/handle/1887/48872

Akinyoade, Akinyinka, Jos Damen, Ton Dietz, Blandina Kilama and Gerrit van Omme, 2014b, Africa Population Dynamics. Leiden: ASC Thematic Map.

Akinyoade, Akinyinka, Ton Dietz & Chibuike Uche (eds.), 2017, Entrepreneurship in Africa. Leiden: Brill, African Dynamics 15.

Alzouma, Gado, 2005, Myths of digital technology in Africa: Leapfrogging development?. Global Media and Communication 1.3: 339-356.

Amankwah-Amoah, Joseph, 2015, Solar energy in sub-Saharan Africa: The challenges and opportunities of technological leapfrogging. Thunderbird International Business Review 57.1: 15-31.

Asongu, Simplice, Jacinta Nwachukwu, and Vanessa Tchamyou, 2017, A literature survey on proposed African monetary unions. Journal of Economic Surveys, Volume31, Issue3, July 2017: 878-902. https://www.tandfonline.com/doi/pdf/10.1080/13511610.2019.1595538?casa_token=UrzDue-uncSMAAAAA:1hgqmjP41isit6y3obVs02DUOZcwCYPRLto5MO3LkGQw7XAlByXo4Vp3RqpRM9Q1gzxE9lR_O75D

Batinge, Benjamin, Josephine Kaviti Musango, and Alan C. Brent, 2017, Leapfrogging to renewable energy: The opportunity for unmet electricity markets. South African Journal of Industrial Engineering 28.4: 32-49.

Brinkman, Inge and Mirjam de Bruijn, 2018, Mobile phones in mobile margins: communication, mobility and social hierarchies in/from Africa. Palgrave Handbook for Media and Communications Research in Africa.

Brookings, 2015, How Finance Flows to Africa https://www.brookings.edu/wp-content/uploads/2015/05/chart-1-sy.png

Cilliers, Jakkie, 2018 (August), Getting to Africa's demographic dividend. Pretoria: Institute for Security Studies. Africa Report 13. https://ssrn.com/abstract=3254117

Dietz, Ton, 2011, Silverlining Africa. from images of doom and gloom to glimmers of hope: from places to avoid to places to enjoy. Leiden (inaugural lecture). https://openaccess.leidenuniv.nl/handle/1887/16340

Dietz, Ton, 2017, Africa; still a silver lining? Valedictory lecture September 25, 2017, see: https://voice4thought.org/africa-still-silver-lining/

Dietz, Ton, 2020, De gevolgen van Afrika's kolossale bevolkingsgroei, Clingendael Spectator, July 7, 2020. https://spectator.clingendael.org/nl/publicatie/de-gevolgen-van-afrikas-kolossale-bevolkingsgroei

Dietz, Ton, Mayke Kaag and Nel de Vink, 2017a, Africa; international migration. Leiden African Studies Centre, Thematic Map. https://openaccess.leidenuniv.nl/handle/1887/54691

Dietz, Ton, Chibuike Uche and Nel de Vink, 2017b, Africa's international trade 2001-2016: boom and bust / Africa: food imports 2001-2016. Leiden: African Studies Centre, Thematic Map 18. https://openaccess.leidenuniv.nl/handle/1887/54692

Dietz, Ton, Nel de Vink and Wim Admiraal, 2017c, Education in Africa: recent dynamics and current situation. ASCL Leiden. Thematic map 16. https://openaccess.leidenuniv.nl/handle/1887/47429

Dietz, Ton & Akinyinka Akinyoade, 2018, Africa in the 21st Century. Leiden: ASCL Infosheet 33 (revised 2018). http://hdl.handle.net/1887/52947

Dietz, Ton, and nel de Vink, 2020, Africa at 60. ASCL Leiden: thematic map 19. https://www.ascleiden.nl/publications/africa-60

Eeckhout Marion, and Nel de Vink, 2014, Composition of financial flows to Sub-Saharan African countries: ten years into the Monterrey Consensus on the Millennium Development Goals. Leiden, ASC: Thematic Map 11 https://openaccess.leidenuniv.nl/handle/1887/29025

Egypt Today, 2019, Remittances from Egyptian expats https://www.egypttoday.com/Article/3/64603/Remittances-from-Egyptian-expats-rise-to-25-5B-in-2018

Falco, Stefano de, 2019, From Silicon Valley to Africa Valley: which paradigms are needed in the transition from II to IV industrial revolution? Knowledge roadmap and technological track, Innovation: The European Journal of Social Science Research, https://www.tandfonline.com/doi/full/10.1080/13511610.2019.1595538?casa_token=1rVake5TuTQAAAAA%3As3Fu7-R0oNbWoaIWSwUmlJee_f_ymMeG06Rftes2OaSFb-fUt9Tdwb_WtxpYkW8z91bnx0458Of8n

Fund for Peace, 2019, Fragile States Index 2019. Washington. https://fragilestatesindex.org/

Gross, Ann-Kristin, 2019, Sub-Saharan Africa and the 4th Industrial Revolution Technological Leapfrogging as a Strategy to enhance Economic Growth?

Henderson, Andrew, 2018, The World's Highest Government Bond Interest Rates. https://nomadcapitalist.com/2018/08/30/highest-government-bond-interest-rates/

Honwana, Alcinda, 2014, Youth, waithood, and protest movements in Africa. African Dynamics in a Multipolar World: 5th European Conference on African Studies—Conference Proceedings. Centro de Estudos Internacionais do Instituto Universitário de Lisboa (ISCTE-IUL), 2014.

Kazimierczuk, Agnieszka H., 2019, Wind energy in Kenya: A status and policy framework review. Renewable and Sustainable Energy Reviews 107: 434-445.

Kousksou, Tarik, et al., 2015, Renewable energy potential and national policy directions for sustainable development in Morocco. Renewable and Sustainable Energy Reviews 47: 46-57.

Lalaye, Didier, Mirjam de Bruijn, & Tom de Jong, 2019, Prevalence of Schistosoma Haematobium Measured by a Mobile Health System in an Unexplored Endemic Region in the Subprefecture of Torrock, Chad. JMIR Public Health and Surveillance. https://publichealth.jmir.org/2019/2/e13359/

Leiden African Studies Assembly, 2019, Africa 2020. https://www.ascleiden.nl/content/africa-2020

Lem, Marjolein, Rob van Tulder and Kim Geleynse, 2013, Doing Business in Africa. A Strategic Guide for Entrepreneurs. Leiden: Contactivity, for Berenschot, the Partnerships Resource Centre RSM Erasmus University Rotterdam and NABC, the Netherlands-African Business Council.

Mbiti, Isaac, and David N. Weil, 2015, Mobile banking: The impact of M-Pesa in Kenya. African Successes, Volume III: Modernization and Development. University of Chicago Press: 247-293. https://www.nber.org/chapters/c13367.pdf

Morocco World News, 2019, Remittances. https://www.moroccoworldnews.com/2019/04/271381/diaspora-remittances-hit-7-4-billion-in-morocco-in-2018/

Mu, Yibin, Peter Phelps, and Janet G. Stotsky, 2013, Bond Markets in Africa. Washington: International Monetary Fund. Working Paper. https://www.imf.org/external/pubs/ft/wp/2013/wp1312.pdf

Murphy, James T., 2001, Making the energy transition in rural East Africa: Is leapfrogging an alternative?. Technological Forecasting and Social Change 68.2: 173-193.

Shaw, Timothy M., 2016. African Agency Post-2015: The Roles of Regional Powers and Developmental States in Regional Integration. In: Levine, Daniel H., & Nagar, Dawn (eds.): Region-Building in Africa. Basingstoke: Palgrave Macmillan: 109-126. https://link.springer.com/chapter/10.1057/9781137586117_7

Szabó, Sandor, et al., 2013, Sustainable energy planning: Leapfrogging the energy poverty gap in Africa." Renewable and Sustainable Energy Reviews 28: 500-509.

Uche, Chibuike, and André Leliveld, 2020, Has the African Development Bank lost its African character? African Studies Centre Leiden. Blog. https://www.ascleiden.nl/content/ascl-blogs/andre-leliveld-chibuike-u-uche/has-african-development-bank-lost-its-african

UN, 2015: United Nations, Department of Economic and Social Affairs: Sustainable Development; https://sdgs.un.org/goals

United Nations, World Fertility Report 2015, New York: UN-DESA. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/files/documents/2020/Feb/un_2015_worldfertilityreport_highlights.pdf

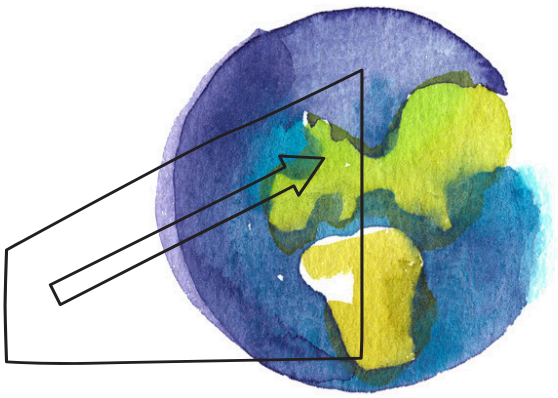
Vollset et al., 2020 (July), Fertility, mortality, migration, and population scenarios for 195 countries and territories from 2017 to 2100: a forecasting analysis for the Global Burden of Disease Study. The Lancet, https://doi.org/10.1016/S0140-6736(20)30677-2

Wikipedia, nd, List of Africa Stock Exchanges. https://en.wikipedia.org/wiki/List_of_African_stock_exchanges

World Bank Group & Chinese Development Bank, 2017, Leapfrogging: the key to Africa's development?. From constraints to investment opportunities. Washington DC. https://www.ictdata.org/2017/09/leapfrogging-key-to-africas-development.html

World Bank, 2018, Record High Remittances Sent Globally in 2018. https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018

World Economic Forum, 2015, 10 trends on foreign investment in Africa. https://www.weforum.org/agenda/2015/07/10-trends-on-foreign-investment-in-africa/



The view from NN Investment Partners: How bond investors can access the Africa opportunity

Africa bond markets represent an attractive avenue for international investors to access the continent's economic transformation.

Investor interest has been fuelled by two dynamics: one endogenous, the other external. Relatively high growth rates are underpinned by favourable demographic trends, the rapid pace of urbanisation, technological leapfrogging, an abundance of natural resources and deepening financial markets. Second, international investors' prolonged search for yield and portfolio diversification has been amplified by the ultra-low interest rate environment that has persisted for the last decade, driven in part by ample global liquidity provided by central banks. These conditions have created a favourable environment for low to middle income countries to borrow in foreign currencies from international financial markets and spur market integration.

Market access

Eurobonds offer a convenient way for international investors to gain exposure to the African continent without taking on additional currency risks or administrative burdens. African Eurobond markets are far from homogeneous and exhibit considerable diversity. As of March 2021, 20 African countries had outstanding Eurobonds with more than USD 110 billion in principal obligations. The larger economies including South Africa, Egypt, Nigeria and Ghana have become regular issuers in recent years and have complete Eurobond curves, while others like Gabon and Namibia have a couple of outstanding Eurobonds. Some issuers such as Ethiopia and Republic of Congo have single outstanding Eurobonds.

The majority of Eurobonds are denominated in USD, although some EUR-denominated issuance has emerged, particularly from countries which have close ties to the Eurozone such as Morocco, Benin, Ivory Coast and Tunisia. Domestic bond markets – despite comprising the majority of African sovereign debt markets by amounts outstanding – remain relatively under-developed and fragmented and are consequently less liquid. Although some foreign investors have ventured into local currency markets in for example Egypt, Ghana, Nigeria, Kenya and Uganda, for the majority of foreign investors, these markets can be inaccessible due to regulatory and/or practical considerations. However, both Egypt and Ghana are candidates for inclusion in JP Morgan's GBI-EM index, so this should be a dynamic to increase foreign participation in the future.

Given their relative lack of development, African governments need external foreign financing sources to close their infrastructure gaps and to be able to unlock their full growth potential. In our view, Eurobonds can be one of the sources of finance if they are part of a sustainable and responsible public financial management plan. Eurobonds will remain an important instrument for investors to gain exposure to the continent.

A thematically interesting dimension for investors is the emerging trend of green and social financing in Africa. For example, Kenya sold its first green bond issue in 2019 in local currency. In 2020, Egypt was the first country to sell USD-denominated green bonds, which were five times oversubscribed. Most recently in July 2021, Benin issued debut Sustainable Development Goals (SDG) bonds denominated in EUR. Ghana is also exploring options to raise up to USD 1 billion this year through a sale of social and green bonds to refinance existing debts linked to projects in the educational and environmental sectors.

Coronavirus and the policy response

The coronavirus crisis has exacerbated pre-existing vulnerabilities with respect to balance sheets and payment capacity for many countries and frontier markets were no exception. In March, spreads on Eurobonds issued by African governments climbed to distressed levels, fuelled by the collapse of investor risk appetite and a dearth of market liquidity. However, swift policy responses from both developed and emerging economies – and unprecedent support from multilateral institutions such as the IMF and World Bank – helped to stabilise markets.

The IMF's Rapid Credit Facility (RCF) and Rapid Financing Instruments (RFI) provided an initial cushion; the next iteration took the form of the World Bank's Debt Service Suspension Initiative (DSSI). China's role as one of the most important bilateral lenders in the continent was crucial in addressing liquidity pressures, despite restructuring processes often remaining opaque. The G20 revealed its "Common Framework for Debt Treatments beyond the DSSI" in November 2020 to coordinate the debt treatment among creditors in low-income countries. Collectively, this set of policy responses represents a suspension/maturity extension of debt service payments rather than write-offs.

So far only Zambia and Ethiopia have applied this programme and limited progress has been made thus far in both cases. The framework calls for private sector participation but as to how it will work in practice it is unclear at this moment. In our view, private sector participation is best achieved on a case-by-case basis to find a best possible outcome from both the issuer and creditor perspectives. The most recent form of potential policy support comes in the form of a new Special Drawing Rights allocation of USD 650 billion which would be used to enhance countries' international reserves. The IMF Board approved the disbursements in August 2021. No specific conditionality is attached to the use of SDRs; countries have discretion on how to use the proceeds. Additional breathing room is on the way as talks continue among developed markets reallocating their SDRs in the form of donations. Acknowledging that the global effort could address health needs, including vaccinations, the G7 may put its support behind a USD 100 billion SDR reallocation.

In conclusion, the African bond market remains an attractive opportunity – underpinned by advantageous secular trends – for active emerging markets investors in the medium and long run.

Authors:

Marcin Adamczyk
Head of Emerging Market Debt at NN Investment Partners

Nora Szokol
Portfolio Manager at NN Investment Partners

Disclaimer

This marketing communication is intended for MiFID professional investors only. This communication has been prepared solely for the purpose of information and does not constitute an offer, in particular a prospectus or any invitation to treat, buy or sell any security or to participate in any trading strategy or the provision of investment services or investment research. While particular attention has been paid to the contents of this communication, no guarantee, warranty or representation, express or implied, is given to the accuracy, correctness or completeness thereof. Any information given in this communication may be subject to change or update without notice. Neither NN Investment Partners B.V., NN Investment Partners Holdings N.V. nor any other company or unit belonging to the NN Group, nor any of its directors or employees can be held directly or indirectly liable or responsible with respect to this communication. Use of the information contained in this communication is at your own risk. This communication and information contained herein must not be copied, reproduced, distributed or passed to any person other than the recipient without NN Investment Partners B.V.'s prior written consent. Investment sustains risk. Please note that the value of any investment may rise or fall and that past performance is not indicative of future results and should in no event be deemed as such. This communication is not directed at and must not be acted upon by US Persons as defined in Rule 902 of Regulation S of the United States Securities Act of 1933, and is not intended and may not be used to solicit sales of investments or subscription of securities in countries where this is prohibited by the relevant authorities or legislation. Any claims arising out of or in connection with the terms and conditions of this disclaimer are governed by Dutch law.

NN investment partners