

Sustainable Wealth: The Future of African Economies? | Alroya

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For hundreds of years, Africa's substantial natural resources have captured the attention of foreign businesses and nations. Outside interests have traditionally sought to tap the continent's reserves of ivory, precious metals, and of course, oil. But until recently, foreign investment in sustainable economic development has largely eluded African economies. Now, renewed interest in Africa promises more sustainable economic growth, an encouraging prospect for African nations as well as global businesses that hope to serve the continent's population of over one billion people.

Three important developments have changed the way the world looks at Africa: Hedge funds have been watching Africa's emerging markets as an attractive source of alternative investment opportunities. Energy companies are also eyeing the continent's untapped oil and gas reserves which are more accessible in the wake of increasing political stability. Finally, microloan banks and non-profit groups such as MBAs Without Borders are developing sustainable economies at the grassroots level, raising the standard of life and purchasing power of the African population. Although challenges still lie ahead for Africa, these recent developments have the potential to transform Africa into a sustained source of wealth and consumer demand.

Hedge Funds

Hedge funds have long looked to the emerging markets in Asian and South American countries for alternative investment opportunities. But some alternative investment vehicles are beginning to look at emerging markets in Africa. With significant advances in the availability of technology and access to the benefits of globalization, Africa could become the new frontier for emerging market alternative investment managers.

Africa's 53 countries make up nearly 20% of the world's land mass, and are home to over a billion people. Grassroots economic development is strengthening the buying power of many Africans, presenting opportunities for corporations seeking an underserved consumer base with limited competition.

Historically, internal conflicts and overwhelming external debt have discouraged foreign investment managers. But as these factors are beginning to subside, hedge funds and institutional investors are taking a second look. For example, Renaissance Capital has established its Africa Fund and Oryx SA Fund (the largest South African Hedge Fund) to focus solely on securities and commodities associated with Africa.

Most of Africa's hedge funds are located in South Africa, which is home to the Johannesburg Stock Exchange (JSE), the 17th largest stock exchange in the world. But other African countries have progressed towards political and financial stabilization, allowing hedge funds to branch out beyond South Africa.

For example Zephyr Management's Pan-African Investment Partner Fund and ZM Africa Investment Fund demonstrate the growing interest in African infrastructure, insurance companies, and consumer credit institutions.

Energy

Much of Africa's sustainable growth is also fueled by a renewed interest in its untapped oil and natural gas reserves. While energy exportation has thrived for years in OPEC member nations such as Nigeria and Angola, the changing energy trade is driving interest in other African countries as well. The United States and China are hoping that these reserves will provide a solution to their energy problems, leading companies such as Canadian Natural Resources to pour money into

energy exploration projects in Africa.

According to Shawn McCarthy, a global energy reporter, CNRL will spend \$260 million to develop offshore oil production in Africa. In 2009, Exxon Mobil spent \$6.2 billion in exploration and development in Africa, putting Africa just behind Asia and the Middle East in terms of capital allocation. McCarthy has posited that countries like Ivory Coast and Sierra Leone might use their oil revenues to finance reconstruction in the wake of recent civil wars.

Grassroots

Africa is also seeing investment at the grassroots level. Banks and nonprofits are investing directly in Africa's population. Grassroots investment, which strengthens the earning and spending power of the continent's one billion inhabitants, will be important to creating a sustainable economy in Africa. By empowering Africa's population to create their own wealth independent from natural resources, grassroots investment helps Africans to start their own businesses and take advantage of the benefits of globalization.

Microloans have been helping African entrepreneurs build new sources of wealth for over thirty years. ACCION, an organization that offers financial services to Africa's poorest residents, has lent more than \$145 million over the past 10 years. Kiva, another microloan lender, has lent over \$137 million. The loans, which are typically for amounts between \$20 and \$200, are used to purchase assets for new businesses. Microlending received great attention in 2006 after Muhammed Yunus won the Nobel Prize for his work with Grameen Bank (another microlender).

MBA Without Borders (MWB) is another source of grassroots investment in Africa. MWB partners MBAs with local businesses, multinational corporations, and NGOs with the goal of fostering trade and social development. Members of the organization train underdeveloped populations to better conceptualize, market, and implement their own local businesses. Rather than donating raw goods, MWB provides Africans with the knowledge and tools to succeed in a globalized marketplace, which in turn raises income and living standards.

Conclusion

The African Union, an intergovernmental organization established in 2002 that includes all African states except Morocco, plans to create a single currency for the countries within the organization by 2023. Developments such as that would increase the stability of many African nations. Increased stability, along with foreign investment in the form of hedge funds, energy exploration, and microcredit, can help Africa build a sustainable economy that will outlast its natural resources.

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