

Risk and reward of investing in Africa | Bikya Masr



CAIRO: Remi Bello, co-founder of B&M Consulting – formally Bello & Manchau Political Risk Consultants – talked to Bikya Masr recently on focusing on the risk and reward of investing in Africa, responsible investing and China’s role in creating stability for Africa.

“Africa is the next investment frontier,” says Bello, keen on increasing Foreign Direct Investment (FDI) and using investment on the continent, partially as a tool for creating growth and development and creating the conditions for bettering the lives of everyday African’s.

In one of the poorest regions on the globe we see countries with copious amounts of natural resource wealth, however the list of endemic problems Africa faces is as long as an elephants trunk.

The recent history of Africa is littered with examples of countries, companies and private entrepreneurs alike drawn to Africa’s bounty of natural wealth. After the break-up of empire post WWII many modern African nation-states fell into instability that was often exploited by big business hungry for African resources. As a result today countries like Angola, Nigeria and Sudan have scrambled for control over resources resulting in civil war and the deaths of thousands induced by a heady mix of government corruption and neglect. Companies like British petroleum and De Beers were quick to capitalize over these situations.

Bello is quick to point out “there’s a lot of truth to the fact that African countries are not stable despite the opportunities that are available there’s a lot of instability to go around,” he argues this has made investors wary of putting money into the continent. “Our clients realize that in order to deal with such levels of instability that they need partners on the ground who understand the situation who can help them to progress in these unique challenges.”

B&M Consulting joins a raft of companies that focus on political risk in developing regions, but as Bello points out “we focus exclusively on African countries.”

“What that does for us and the added value for our clients is that we can be much more comprehensive than our competitors can be. We can work not only at the continental level but we can work at the regional level we can work at the country level we can work at the provincial and state level and we can also work at the municipal level and we can work on the sector and industry level. This level of thoroughness has not been heard of within our industry. So we are willing to get the details on behalf of our clients and that’s what separates us from the crowd.”

B&M see opportunities even in some of the most unstable countries, like Somalia, which has not had a functioning government since 1991. “Despite the instability Somalia still presents investment opportunities for those that are creative enough to deal with the instability. The fighting has led to a complete massive breakdown of infrastructure which presents opportunities to the savvy investor,” he adds.

The risks of doing business in Africa can be great and the area with most risk is energy. “Energy is a key sector for African countries because this is what is driving growth. If you look at China’s interest in Africa it’s primarily energy driven.”

As financial institutions across the globe continue to shake, Bello points out “the market place for African commodities is increasingly shifting from developed countries to the emerging or ‘BRIC countries’. That is Brazil India Russia and China. It is the voracious appetite of these rapidly growing BRIC countries that is fulfilling the commodities demand void helping commodities prices recover right now.”

The IMF in July this year projected Africa’s growth for 2010 at 4.1 percent, however B&M think the figure will be closer to 4.5 percent. “We believe that increased interests on the part of the BRIC countries in Africa will drive Africa’s growth next year.”

While China's role in Africa has led some commentators to argue a new form of colonialism is emerging, Bello points to the positive effects of China's increased interest. "China is helping to build new infrastructure across Africa new roads railways hospitals and schools means increased local productivity and growth Chinese build roads that are helping African farmers transport their raw commodities to the market place. Chinese built telecommunications towers are helping small-scale rural African farmers receive the latest advancements in agricultural science from experts in the cities."

China, notorious for hiring Chinese nationals for projects in Africa is countered by Bello. "Anybody that has been to Africa recently will tell you that they receive a throng of locally run businesses that surround every Chinese construction site. All these seemingly minor benefits add up," he argues.

Bello does not see a new cold war being fought out in Africa but admitted America and Europe have been forced to re-think their strategy in vying for African resources due to the increasing power on the part of the BRIC countries. "Not only is China bringing these infrastructure projects as I described they are also sparking a race that will ultimately benefit Africans they're sparking a race where by European powers and the United States are starting to rethink their strategy as they pertain to African countries," the expert continues.

The discovery of oil in African countries is just as often described as a curse than as blessing, and while there are disaster stories, like Angola (sub-Saharan Africa's second-largest petroleum producer) who suffered a bloody civil war from 1975 to 2002, there are also success stories like Ghana, who's stable government and transparency is marked with a high level of maturity and stability.

On the question of responsible investment in Africa, Bello responded with "At B&M Consulting, we believe corporate social responsibility is one of the most effective political, social, economic and security risk management tools. Corporate brands and infrastructure that take decades to build can easily be undermined and threatened by exposure to a broad variety of political risks."

Bello, an American Nigerian who has spent much of his childhood and adult life on the continent sees Africa as not being "as challenging to navigate and invest in as people perceive." While investment in the past has often led to corruption and poor governance, perhaps this time around with new interest Africa may grow.

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