PERSPECTIVES

Why Africa Matters: The Investment Case

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

POPULATION AND ECONOMIC GROWTH: A BURGEONING GLOBAL MARKET

Africa's population is growing rapidly. Already numbering almost 1.5 billion, it is projected to reach 2.5 billion by 2050 – around 25% of the world's population. Nigeria – West Africa's economic powerhouse – alone will have a population of 400 million, overtaking the United States as the world's third most populous country. Africa's demographic makeup is also significant. In contrast to much of the Global North, the continent has a youthful population. The median age of most African countries is below 20, and 40% of all Africans are under the age of 14.

This population boom is forecasted to be accompanied by significant African GDP growth. In 2022, Africa's total GDP stood at USD 3 trillion. By 2050, this is expected to increase by over ninefold, rising to USD 29 trillion. The wealth of individual Africans is also projected to rise. Although the growth of the African middle class has been a somewhat overplayed narrative, with the monetary threshold constituting middle class often set low, GDP per capita is forecast to grow significantly. Currently standing at USD 2,150, estimates indicate that it will exceed USD 17,000 by 2050.

Africa's growing and youthful population, coupled with the continent's increasing wealth, creates clear investment opportunities. In the coming decades, accessing the African consumer market will become increasingly important to global players from sectors including fast-moving consumer goods (FMCG), financial services, and telecommunications. Likewise, although the rise of artificial intelligence (AI) and automation will disrupt traditional job-creating industries such as manufacturing, Africa is – and increasingly will be – home to a substantial, educated, workforce. Jobs will need to be found for Africa's youth, but investors in such industries as technology and large-scale agriculture and agro-processing will find a ready supply of talented employees.

To access the commercial opportunities associated with Africa's growing population and economy, capitalising on free trade agreements and economic unions is of paramount importance. Most notably, the African Continental Free Trade Area (AfCFTA) will create the largest free trade area in the world by numbers of countries participating. Enabling free trade between up to 54 countries, the agreement will prove of critical importance to investors on the continent. To date, however, progress has been slow. Monitoring the AfCFTA's implementation should be a priority for foreign companies as strategic plans for the continent are developed.

CRITICAL MINERAL SUPPLY: AFRICA TAKES HOLD OF ENERGY TRANSITION

Aside from the eyewatering demographic and GDP growth figures extending out to 2050, Africa is seen as the future of the energy transition. The African continent has long been considered a sourcing destination for minerals and oil and gas, but this has taken on new impetus in recent years. Africa has abundant natural resources such as copper, cobalt, forests for carbon capture, water resources, solar potential, and natural gas – all of which are crucial to achieving net zero ambitions.

According to the International Energy Agency, total mineral demand from clean energy technologies will double by 2040 with the current policies in place and could even quadruple if tighter environmental legislation is adopted. While not all this supply will come from Africa, it is still home to the largest and crucially, highest grade, reserves of critical minerals. Take just one country, the Democratic Republic of Congo (DRC), which is home to the largest and highest-grade undeveloped lithium hard-rock deposit in the world, and 75% of the world's known cobalt reserves.

In addition to the global energy transition, a unique convergence of events in the past three years has stimulated even further demand for African resources. A growth in geopolitical tensions, Russia's war on Ukraine, and the COVID-19 pandemic has renewed, and increased, interest in African minerals. Governments worldwide are courting African leaders to develop the continent's economic relations and stimulate their private sectors to enter. Most clearly, Africa's resources are seen as the solution to Chinese dominance of supply chains for critical minerals such as rare earths, and semi-conductors for lithium-ion batteries. The United States and the European Union are both creating strategic political partnerships with African countries such as Namibia, the DRC, Tanzania, Botswana, and Zambia, to secure future supply of minerals like lithium, graphite, nickel, copper, and cobalt.

Crucial for African leaders is the opportunity to capitalise on this renewed interest to achieve developmental goals, such as infrastructure improvements and industrialization. Governments, such as in the DRC, are pushing for further domestic beneficiation and support, which means a new breed of strategic public-private partnerships forming between investors from the Global North 'consumer' countries, and African governments. For these companies, there has never been a better time to tap into market conditions with their governments' support – even providing political risk insurance cover. For example, the U.S. Development Finance Corporation is weighing up to USD 250 million of support for the development of an export corridor from the DRC's copper and cobalt mining region to the Angolan coast, known as the Lobito Corridor. The Lobito Corridor development will facilitate exports of copper and cobalt to the U.S. and support the U.S.'s domestic battery production ambitions, while also revitalising critical railways in the DRC, Angola, and Zambia.

DIGITAL REVOLUTION: AFRICA AT THE CENTRE OF GLOBAL TECH DEVELOPMENT

African critical minerals are powering new global technologies, but the continent itself is also a hotbed of technological innovation and dynamism. In the past two decades, Africa's development has been underpinned by leapfrog technologies. A distinctly African phenomenon, technological innovation has led to the bypassing or redundancy of systems that have driven economic growth in the Global North. The most notable example of this is M-Pesa, a mobile phone-based money transfer payments service, launched in Kenya in 2007. With the mobile phone penetration rate around 65% in Kenya, M-Pesa has democratised access to financial services. Anyone who has a mobile phone can save, send, and receive money, as well as pay for goods and services, without the need for a traditional bank account.

While M-Pesa was a collaboration between global telecommunications firm Vodafone and its Kenyan subsidiary Safaricom, Africa has a flourishing indigenous tech ecosystem. The continent has an abundance of technology entrepreneurs, innovating homegrown solutions to domestic challenges. Commercial success is being achieved, with seven African tech startups having earned coveted 'unicorn' status, meaning that they are valued at more than USD 1 billion. Tech hubs are springing up across Africa, most prominently in Kenya, South Africa, and Nigeria. International companies are playing their part to support this growth – Microsoft, for example, has established Africa Development Centres in Kenya and Nigeria, aimed at cultivating local tech talent.

The growth and success of Africa's technology sector has been reflected in increased external funding. In 2021, private investment in African tech startups reached a record level of USD 4.4 billion, an increase of 63% over the average annual fundraising of USD 2.7 billion from 2016 to 2020. While the current global interest rate environment is beginning to stymie investment in African tech, opportunities remain for savvy investors. Local presence and networks are key to accessing these, and focus should be placed on understanding the granularities of specific market conditions and needs.

The evolution of Africa's technology sector is also opening opportunities for investment in telecommunications infrastructure. Global leaders such as Meta, Orange, and Vodafone are investing heavily in internet connectivity on the continent, and the demand for this infrastructure will only grow. Here, given the scale and complexity of such projects, building strong relationships with presidencies, information and communications technology (ICT) ministries, and regulators is vital. In doing so, investors can guide and shape often nascent regulatory environments, while also troubleshooting the inevitable problems that will arise from infrastructure development across large swathes of lands and varied communities.

CONCLUSION

We have shone a spotlight on just three of the most talked about reasons as to why Africa matters for investors and corporates alike. In fact, the opportunities for investment are endless across the 54 countries, for investors who are savvy, well-informed, and strategic in their approaches to stakeholder engagement. Companies and investors across the continent, including in the manufacturing, FMCG, mining, energy, infrastructure, telecommunications, and technology sectors, should seek support from knowledgeable experts who understand the political, regulatory, and economic landscape of Africa's 54 countries.

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Indigo Ellis is a Senior Director in J.S. Held's Global Investigations practice. She previously served as Co-Managing Director of Africa Matters Limited, which was acquired by J.S. Held in 2023. Indigo specializes in advising the mining, transport and logistics, and energy sectors. Indigo provides solutions that are results-driven and create value for her clients, host communities, and governments. Prior to joining AML, Indigo led the Africa research team at global risk analytics company Verisk Maplecroft, focused on ESG and political risk. She started her career as an advisor on international development policy at the European Commission.

Indigo can be reached at indigo.ellis@jsheld.com or + 44 7769 214 570.

Piers Dawson is a Senior Director in J.S. Held's Global Investigations practice. He joined J.S. Held as part of its acquisition of Africa Matters Limited (AML). At AML, Piers served as Co-Managing Director, leading the company's work on East Africa. Based between Kampala and London, he has a strong understanding of the political, economic, and commercial dynamics within the region, and has utilized this expertise to manage and deliver numerous client projects. He specializes in advising the financial services and energy sectors, particularly development finance institutions, private equity firms, and power generation and distribution companies.

Piers can be reached at piers.dawson@jsheld.com or + 44 7384 460 667.