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Indigenous Africans Should Have More Say in Determining Africa Risk

Introduction

The influence and opinion of indigenous Africans needs to be reflected more in the way Africa risk is assessed and portrayed to global investors. That Africa is endowed with extraordinary human and natural resources is not in doubt. Many of us who care about Africa will no doubt have read articles written by the likes of McKinsey & Co and supported by data from the United Nations which have rightly identified Africa as having the world's youngest and fastest growing population.

The reality is that this young demographic needs to be meaningfully employed in a way that contributes not just to their own growth but also to the growth of their individual countries and in this regard the kind of vocational training and education they receive will be very critical, because if planned and done correctly it will lead these young people and their individual countries out of poverty and to prosperity in the years ahead.

Africa is no different to the rest of the world in that most enterprises and businesses in Africa would be classified as SMEs. The Organisation for Economic Co-operation and Development (OECD) refers to SMEs as companies that are employing up to 249 people. Micro employs between 1 to 9 people, small refers to hiring 10 to 49 people, and medium ranges between 50 and 249 people. SMEs account for approximately 80% of jobs in Africa and this makes SMEs a significant mechanism for socio-economic growth. For example, within Sub-Saharan Africa, there are approximately 44 million MSMEs. In this regard SMEs clearly have a crucial role to play in getting Africa and Africans out of poverty.

Africa's infrastructure deficits have also been correctly identified as needing urgent attention. According to the Africa Development Bank, the continent needs up to $170 billion per year by 2025 to overhaul its infrastructure, with two-thirds of that being needed for entirely new infrastructure and the remaining one-third for maintenance.

Africa is not attracting enough domestic or foreign funding / investment for SMEs or Infrastructure projects

While it is true there are various reasons given for the lack of investment flows into Africa such as infrastructure deficits, security issues and governance related issues / rule of law, there is also a different side to the story which is not being addressed enough but which is critical if Africa intends to finally deliver on its enormous promise and potential.

A good example is Nigeria, which had a GDP of 15% in 2002, 9% in 2004, 8% in 2010 and 6% in 2014. Looking at those statistics one would assume that Nigeria was performing well as it had a high GDP during these periods. While the country may have benefited from high oil prices the question is did the wider economy of Nigeria benefit from these periods of high GDP? Did the rapidly growing population benefit? Was there employment for the majority of young and working age people? Was the infrastructure improving? Was security improving?

To move forward and capitalize on their undoubted human and natural resources African countries need to start to develop their own standards for measuring their economic progress and performance which are more suitable for their own environment, to determine whether they are making economic progress.

The African Union has recently stated that it plans to create a new sovereign credit rating agency that it says could provide more accurate risk assessments for governments across the African continent.
The proposal for the new agency, the African Credit Rating Agency (ACRA) was outlined in a report by the United Nations Economic Commission for Africa, which claimed that today's leading credit rating firms make "significant errors in their ratings on African countries." The erroneous ratings, according to the report, are often based on narrow assessments that don't take into account positive economic indicators and can impact the flow to capital in the region.

"It is envisaged that the ACRA would provide balanced and comprehensive opinions on African credit instruments to support affordable access to capital and the development of domestic financial markets," the report states.

Africa Hardly Defaults on Infrastructure Loans
Moody's Corporation one of the Big Three global credit ratings agencies (the others being Fitch and Standard & Poor's) recently came to this conclusion after examining the numbers.
5.5 percent of financed infrastructure projects across the whole of Africa end up failing to repay their loans. This puts Africa's infrastructure default rate below that of Western Europe's 5.9 percent. Africa's default rate for loan-financed infrastructure projects is also close to a third that of Latin America's 12.9 percent default rate. Its 5.5 percent rate is still a fair bit below Asia's 8.8 percent .

Conclusion
Africans and other well meaning friends of Africa need to take the initiative now to sort out the risk perception challenges which African countries have to deal with. Clearly there is a need to start to develop standards for risk assessment and financing of SME and Infrastructure projects that are more tailored to the needs of Africa and it's people. This way they will start to see more SMEs thriving and creating more jobs, infrastructure projects which were not considered viable will now start to receive the funding they require. This is a very opportune time given the creation of the African Continental Free Trade Area and the implications it has for development of infrastructure / enterprise across the continent and free movement of people and goods.

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