



# **Fostering Change in Africa: Transforming a Continent Through Innovative Business and Philanthropy**

**Global Conference 2009**



**Fostering Change in Africa:  
Transforming a Continent Through  
Innovative Business and Philanthropy**

Wednesday, April 29, 2009; 9:30 AM - 10:45 AM

**Moderator:**

John Simon, Visiting Fellow, Center for Global Development

**Speakers:**

Rod MacAlister, Managing Director, Africa Middle Market Fund

Nazeem Martin, Managing Director and CEO, Business Partners Ltd. and Business Partners  
International

Aleem Walji, Head of Global Development Initiatives, Google.org

Greg Wyler, Founder and CEO, O3b Networks Ltd.



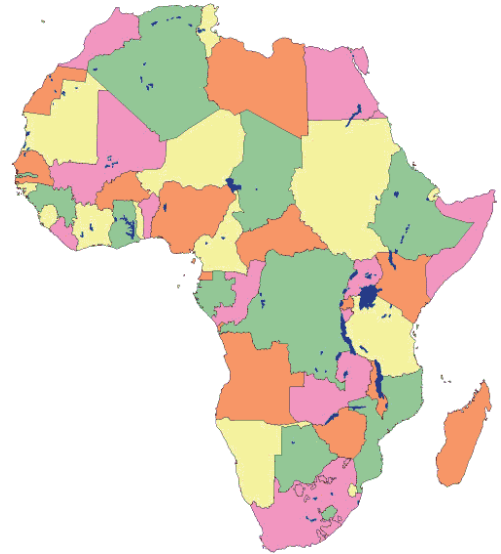
# Africa at a glance

**Population:** 964 million

**Annual real GDP growth (1999-2007):** 4.7%

**Official development assistance (2007):** \$39 billion

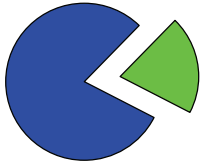
**Net foreign direct investment (2007):** \$47 billion



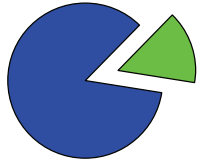
Sources: African Development Bank/OECD, African Economic Outlook, 2008; OECD; UNCTAD.



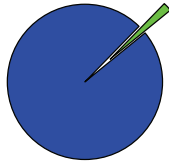
# Africa accounts for...



**22%** of the world's land area



**15%** of the world's population

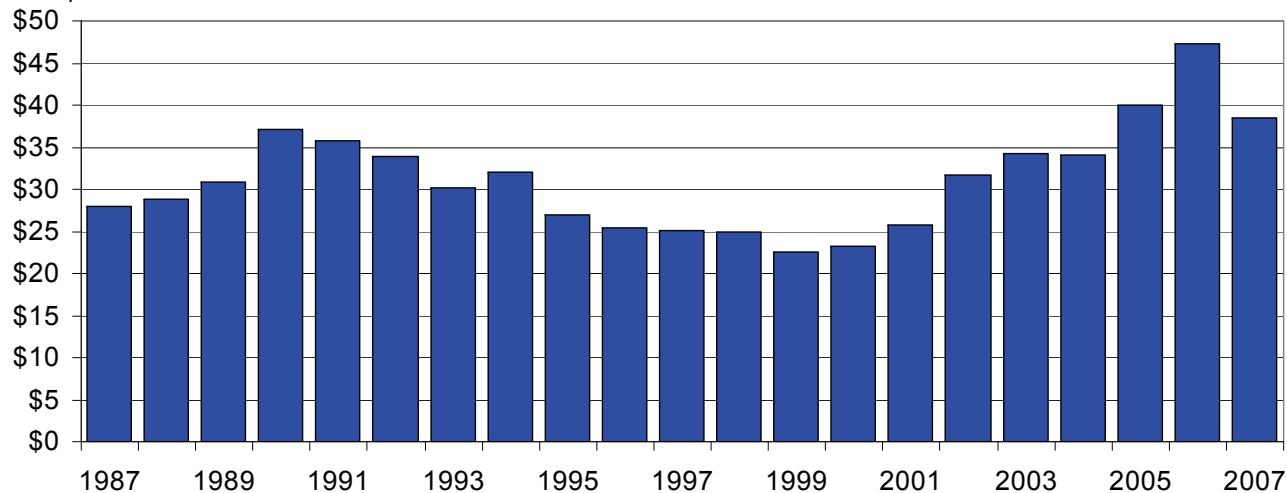


Yet only **2%** of the world's GDP

Sources: Population Reference Bureau, U.S. Census Bureau, International Monetary Fund.

# Official development assistance to Africa

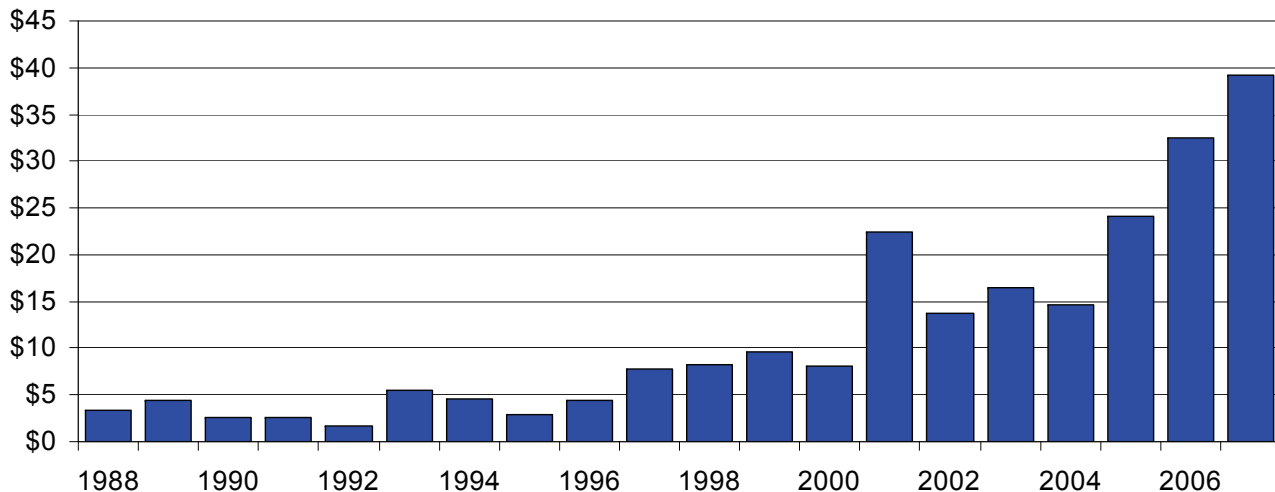
US\$ billions



Source: OECD. Note: Constant 2007 prices.

# Net foreign direct investments in Africa

US\$ billions

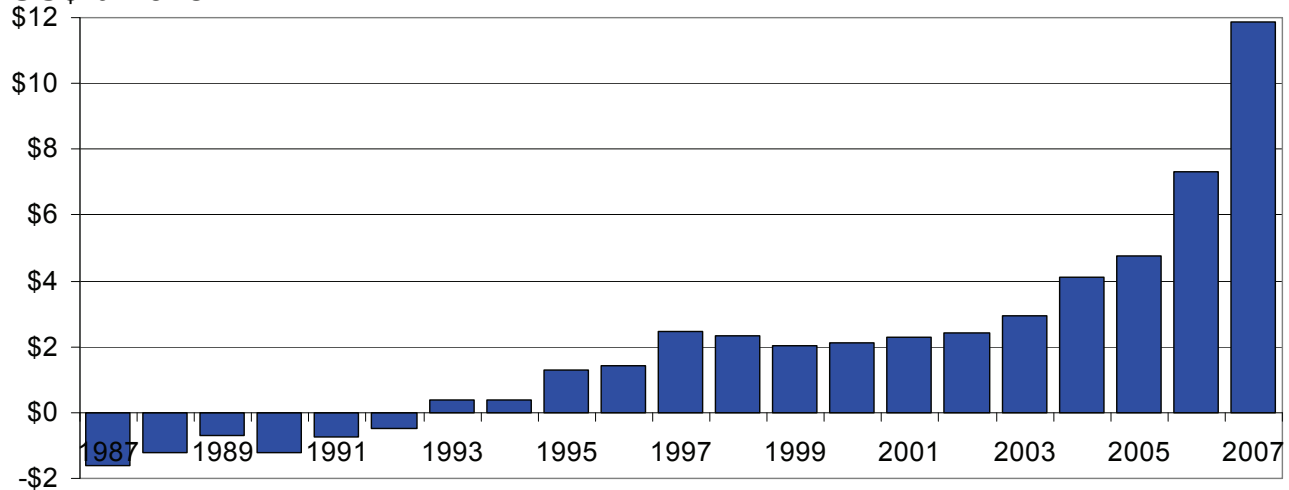


Source: UNCTAD, FDI online database. Note: Constant 2000 prices.



# Net remittance flows to Sub-Saharan Africa

US\$ billions



Source: World Bank, March 2009. Note: Constant 2000 prices.

# Ease of doing business around the world

*Ranked by most business-friendly*



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Region	Average rank of countries in region
OECD high-income countries	27
Eastern Europe and Central Asia	76
East Asia and Pacific	81
Middle East and North Africa	90
Latin America and Caribbean	92
South Asia	111
Sub-Saharan Africa	138

Source: *Doing Business*, 2009.



# Easiest and most difficult countries to start a business

<b>Easiest</b>	<b>Rank</b>
New Zealand	1
Canada	2
Australia	3
Georgia	4
Ireland	5
U.S.	6
Mauritius	7
U.K.	8
Puerto Rico	9
Singapore	10

<b>Most difficult</b>	<b>Rank</b>
Cameroon	172
Djibouti	173
Equatorial Guinea	174
Iraq	175
Haiti	176
Guinea	177
Eritrea	178
Togo	179
Chad	180
Guinea-Bissau	181

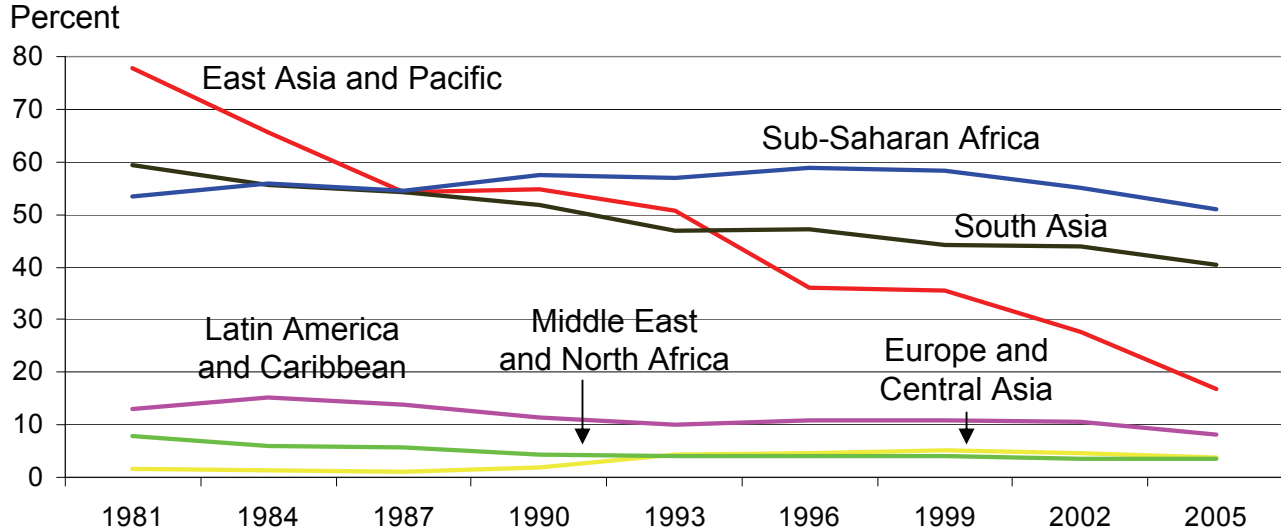
Source: *Doing Business*, 2009.

# Share of population in poverty



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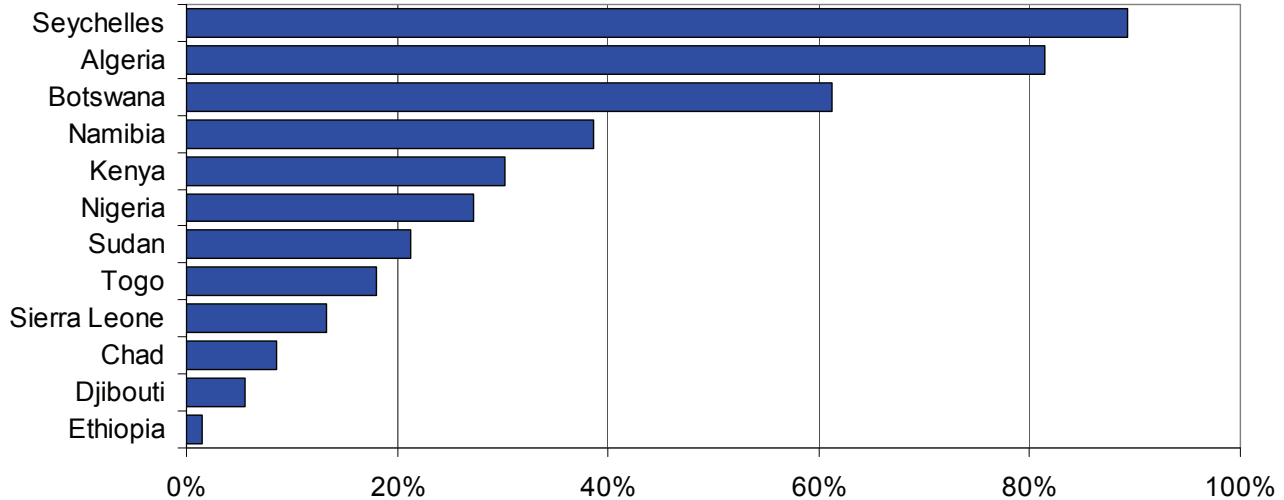
*Living on less than 2005 PPP \$1.25 a day*



Source: World Bank, 2008.

# Wide variation in cell phone subscription rates throughout Africa

Percent of population subscribing to mobile cellular

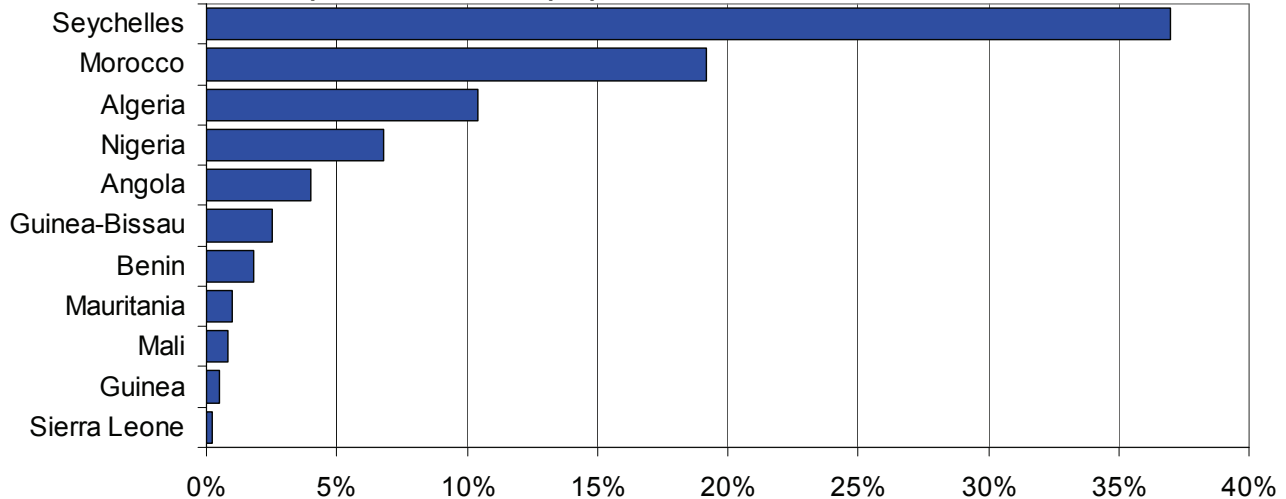


Source: International Telecommunication Union.



# Internet usage varies throughout Africa

Internet users as a percent of the population



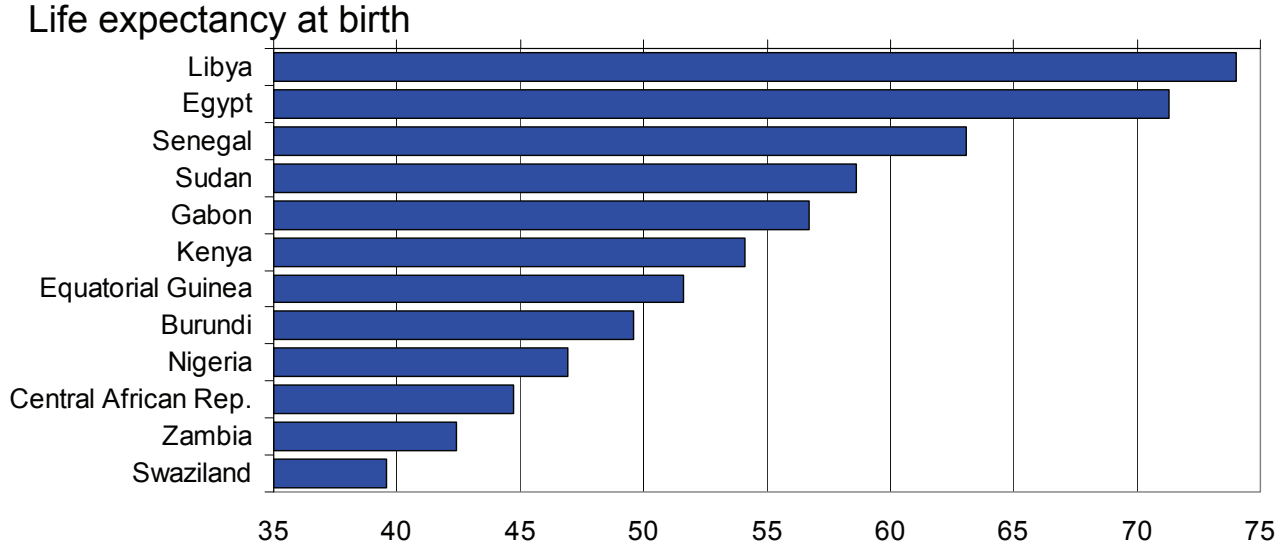
Source: Internet World Stats.

# Africa's Internet usage remains relatively small but is growing quickly

	Penetration (% of population using the Internet)	Growth in users 2000-2008
Africa	6%	1,100%
Asia	17%	475%
Europe	49%	274%
Middle East	23%	1,296%
North America	74%	133%
Latin America/Caribbean	30%	861%
Oceania/Australia	60%	173%

Source: Internet World Stats.

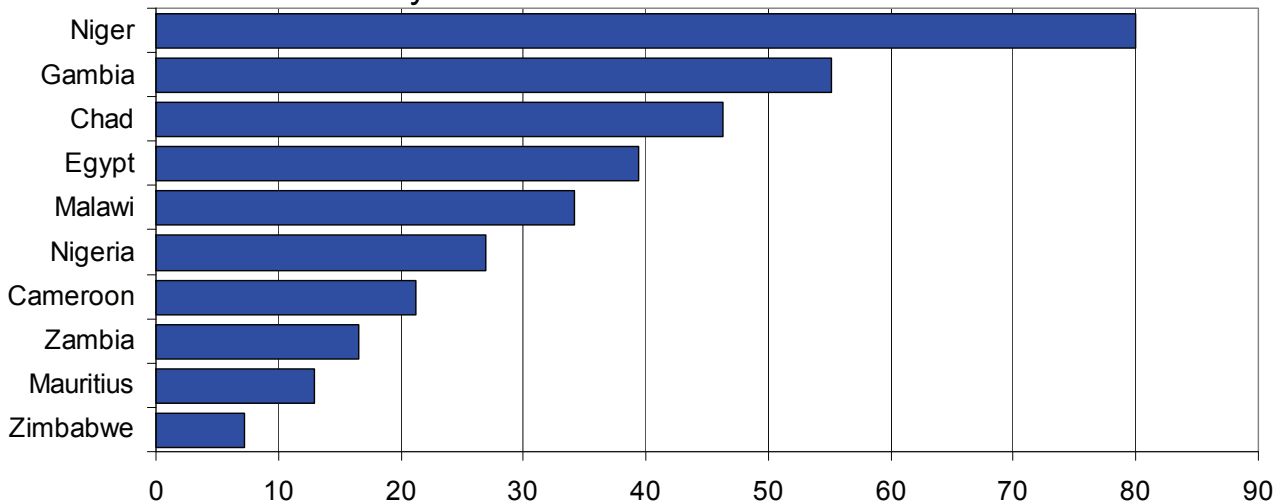
# Wide range of life expectancies throughout the African continent



Source: African Development Bank/OECD, African Economic Outlook, 2008.

# Illiteracy rates vary greatly among African countries

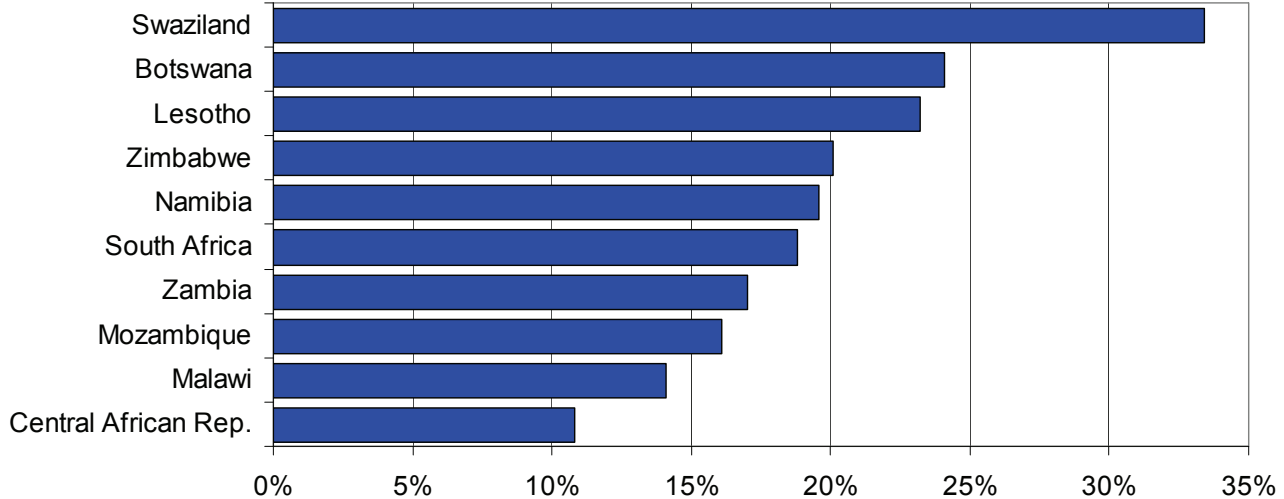
Estimated adult illiteracy rate



Source: African Development Bank/OECD, African Economic Outlook, 2008.

# African countries with the highest incidence of HIV/AIDS

## Prevalence of HIV/AIDS among adult population



Source: African Development Bank/OECD, African Economic Outlook, 2008.





# Panelists' slides



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**Rod MacAlister**  
**Managing Director**  
**Africa Middle Market Fund**

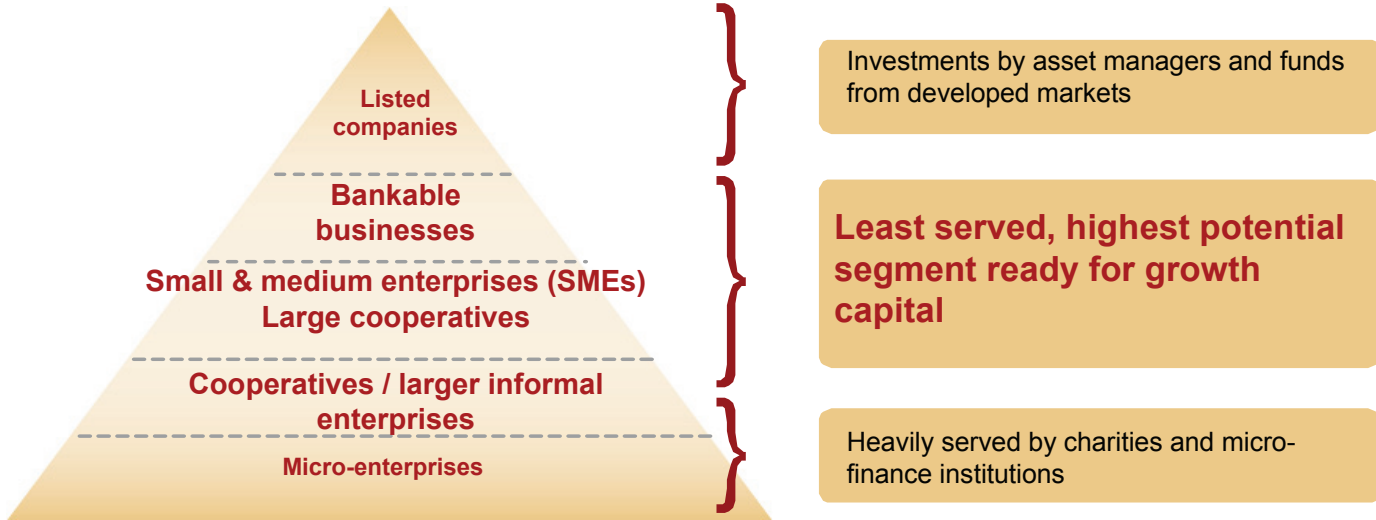


# From charity to investment

Saying ⇒	<b>“Give a man a fish” or “A Handout”</b>	<b>“Teach a man to fish” Or “A hand up”</b>	<b>“Own the fleet!” or “Hand in hand”</b>
Used for...	<b>Emergencies</b>	<b>Poverty “alleviation”</b>	<b>Economic growth</b>
Mode	<b>Relief</b>	<b>Development</b>	<b>Investment</b>
Relationship	<b>Highly vertical</b>	<b>Still vertical</b>	<b>Lateral; equals</b>
Resulting behavior	<b>Dependence</b>	<b>Perpetuates dependency</b>	<b>Mutual benefits creates a growing “pie”</b>
Instruments	<b>Donations</b>	<b>Grants and subsidized loans</b>	<b>Impact investments double bottom line returns</b>



# Defining the “Middle Market”



See also: <http://www.legatum.org/docs/prosperityLadder.pdf>



## “Africa Two”

Per Vijay Mahajan in [Africa Rising](#):

- Africa = world’s 10th largest economy (>India)
- Avg GNIC (06)=\$1066 (\$200+>India)
- 12 nations’ GNIC >China’s
- 200 PE funds w/~\$15 billion managed
- 8 out of 10 best performing stock markets
- Receives ~\$44 billion in remittances
- Cell phone growth: 85%
- Internet usage growth: 880%
- Middle class +~400 million “a market waiting to happen”
- World’s highest growth rate of HNWI’s - 12.5%
- World’s 3<sup>rd</sup> largest film industry is in Nigeria
- “Brain drain” is reversing into a “brain gain”



# To invest or to give?

- Africans: “hold the pity”
- When you’re rich, why do you switch?
  - Gates (+Buffet): ~\$1 billion
  - Google
  - Omidyars (ebay): \$100 MM
  - Goldman Sachs
  - Kellogg Foundation: \$100 MM
- With economic support does donor activity build better businesses or better beggars?
  - What happens when the real value of money is diluted?
- Our thesis: do philanthropy where you can’t make money; do investment where you can
  - You can make more money than you think
  - In either case, avoid top-down approaches



## AMMF approach

- Invest for profit; account for social impact
  - In a trade-off, profit wins
- Insist on investee performance; provide intensive assistance
  - Respect; invest in the relationship
- Enable investee to buy us out; prepare them for future IPO
- Help mainstream Africa as globally competitive investment target



# Meta-themes

- Abundance
  - Land, resources, people, seasoning
- Scarcity
  - Capital, infrastructure, reputation
- In transition
  - Rising
    - Stability, governance, brain power
    - Source of opportunity (for Africans and foreigners)
  - Falling
    - Some notable countries (Zimbabwe, Sudan, Somalia, DRC,...Kenya, South Africa?)
    - Blaming all problems on the legacy of colonialism





## The bear case

- Gigantic expectations of *Messiah Obama*
- A conspiracy of leaders not to speak out about the abuses by their peers
- A crisis of capitalism which means diminishing demand for the products of Africa
- An imploding South Africa which has lost its way as a moral leader
- A fresh colonization by the Chinese, in countries such as Zambia
- Compassion fatigue



## The bull case

- Sheer need by the developed world
  - A new “great game”?
- Africa pushing back
  - Philanthropy example
- Brain gain: returning home to give back
- The global downturn as a leveler
  - 5% GDP growth - compared to what?
- The rising middle class
- Spiritual depth



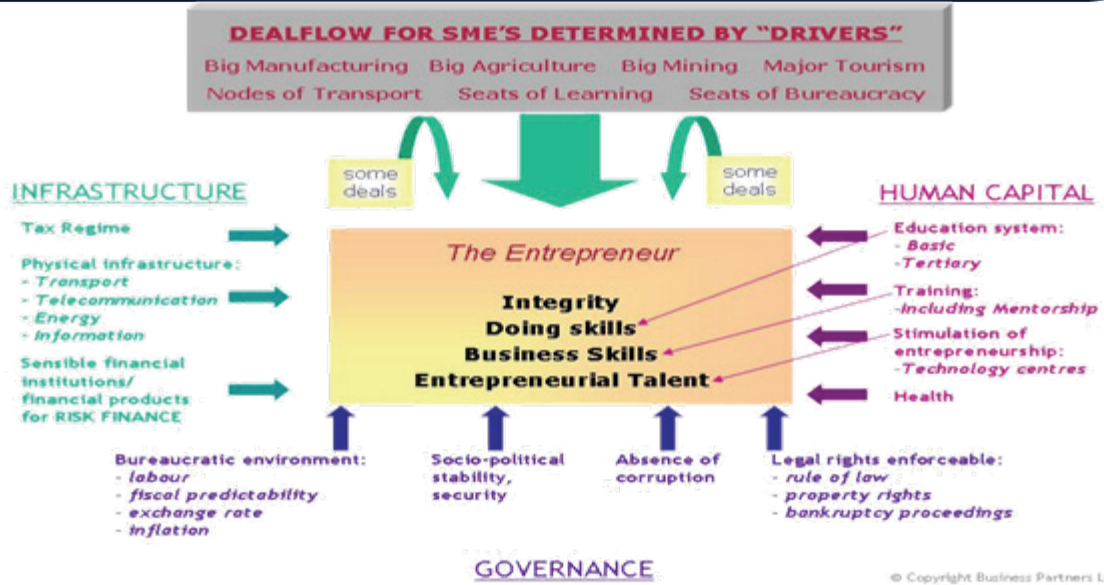
**Nazeem Martin**  
**Managing Director and CEO**  
**Business Partners Ltd. and**  
**Business Partners International**



SME risk finance, on scale, not only builds wealth and creates jobs;  
it also helps to create and broaden the middle class of society,  
the foundation of sustainable democracies.



# Factors that promote or impede SME growth





## Business Partners Ltd

- Specialist SME risk financier/investor
  - Provides customised and integrated risk finance, mentorship and real estate accommodation solutions for SMEs in South Africa and & lately Africa
- Founded in 1981 in South Africa by successful entrepreneur and philanthropist, Dr. Anton Rupert
- The dare: Prove one can run a successful business AND achieve major developmental (social responsibility) goals



In our 28 year history, we have shown that a business can be significantly profitable and have a positively developmental effect on the economy

**PROFITABILITY + DEVELOPMENT IMPACT**

**= REAL BENEFITS TO THE ECONOMY**



## Profitability and development impact

- From initial shareholders capital of US\$25.5 million ...
  - to current shareholders equity of US\$258 million
- Financed more than 30,500 businesses, in the amount of about US\$1 billion
- Current portfolio is US\$210 million/2,800 investments
- Facilitated more than 500,000 jobs





## Business Partners' process and model

- Employs classic venture capital due diligence techniques
  - Reliance on entrepreneurial team – rather than on collateral
  - Deals are structured with debt, royalties and equity
- Also uses the classic Fund Manager model
  - *Client can ask us to manage sums of money, targeting high risk ventures*



# Business Partners International (BPI)

- Based on SA model, we established BPI with IFC
  - BPI – Kenya (US\$14 million) ... 41 deals in 26 months
  - BPI – Madagascar (US\$10 million) ... 29 deals in 26 months
  - Recently won IFC tender to establish BPI – Mozambique
  - Tanzania country study completed
- Use local professionals employed by BPI
- Back office support from BPLSA
- Very experienced COO in SA overseeing BPI



## LESSONS LEARNED – 1

- If your mission is to finance SMEs, you must run a profitable business yourself
  - To be self-sufficient and/or sustainable
  - How can you teach others about profit if you cannot set an example?



## LESSONS LEARNED – 2

- Staff is key to success. They need to be
  - experienced
  - passionate
  - entrepreneurial
  - professionals
- Such people will build the systems to enhance productivity needed to cope with high cost of due diligence (ISO 9001:2000 certified)
- Successful colleagues will find excellent entrepreneurs to invest in

*It's all about people!*



## LESSONS LEARNED – 3

- Align the interests of your colleagues with the objectives of the company
  - i.e. balanced scorecard measures performance and determines annual bonus
  - in our case:
    - 60% about sustainability/profitability of Business Partners
    - 40% developmental



## LESSONS LEARNED – 4

- To be successful, remember
  - you are not a bank
  - you are not a charity
- But you are a risk financier with compassion
  - brain and heart



## LESSONS LEARNED – 5

- It is not only about investing money
- Also skill and knowledge (aftercare)
- Delivered by colleagues and mentors
- Technical assistance is expensive, but essential



# **Aleem Walji**

**Head of Global Development Initiatives**

**Google.org**

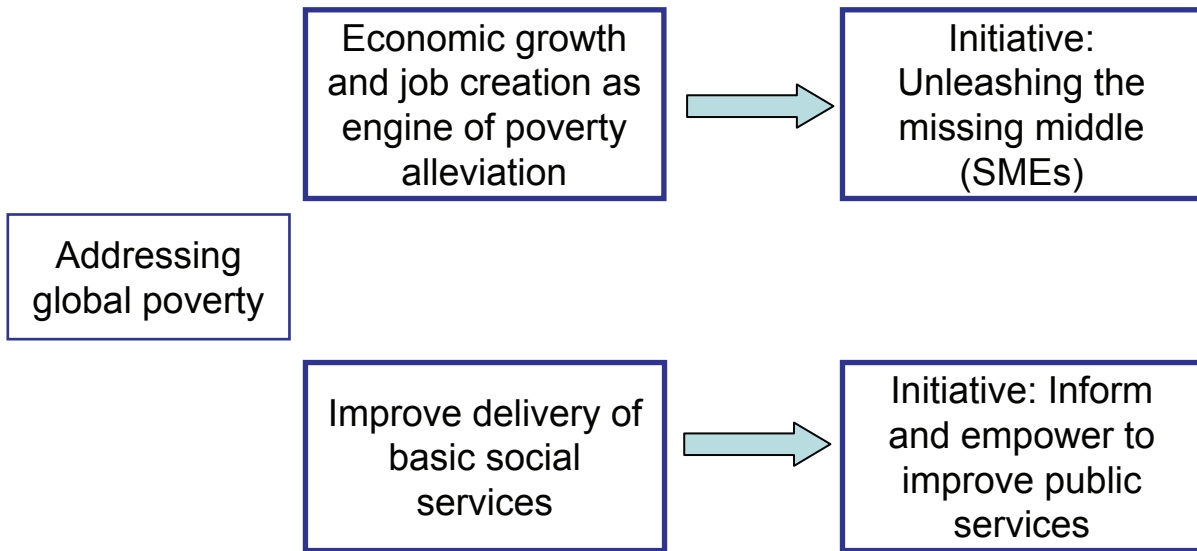


# Addressing global poverty

*A two-pronged approach*



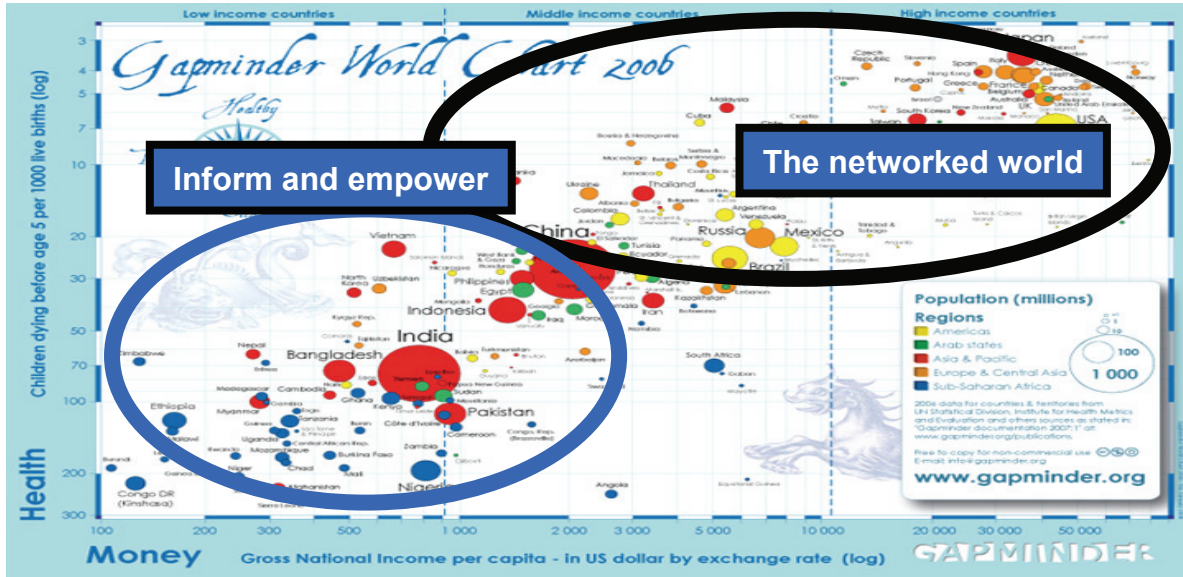
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# Our organizing principle extends Google's core mission *To people who are "off line" more often than on*



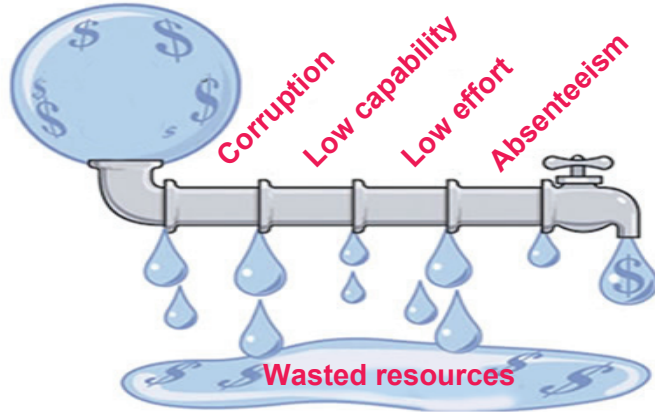
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# The problem

*Public services are failing the poor*

**\$700 billion\***  
spent on basic  
needs  
in low/middle  
income countries



**= Poor service outcomes**

- Children can't read or count
- Lack access to clean water

\* Calculated from 2006 World Development Indicators, World Bank.



# Our theory of change



# The missing middle is missing finance

