THE FASTEST BILLION
The Story Behind Africa’s Economic Revolution
Charles Robertson

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The Fastest Billion

Introduction

The Fastest Billion and $29 Trillion

By Charles Robertson

The rise of the fastest billion will be the last phase of a global economic transformation that began a little over 200 years ago. This transformation saw countries move from agrarian to industrial states, from tyranny to pluralistic middle-class societies and increasingly into economies driven by the information age. These stages of growth have become the benchmark by which we recognise a nation’s economic progress and its population’s steady journey from subsistence towards the unprecedented prosperity and political pluralism now enjoyed by the world’s most developed countries. The process will not be complete by 2050, but Africa is set to be the final beneficiary of this revolution. Furthermore, the most remarkable progress will occur in the next two generations. We expect the billion Africans who in the past decade have already experienced the fastest growth the continent has ever seen to become the fastest two billion, and Africa’s GDP to increase from $2 trillion today to $29 trillion in today’s money by 2050. By 2050 Africa will produce more GDP than the US and eurozone combined do today, and its basic social, demographic and political realities will also be transformed.

The necessary elements that have propelled countries from late medieval commerce with authoritarian government through to industrialised nations with comprehensive and far-reaching social and legal institutions are well known. To note but a few: educated populations, a means to generate energy and power, trade and sophisticated financial instruments and, above all, improved government. Growth has been spurred by competition in the market as well as in conflict. The demands of the modern industrial states have seen their influence spread, through trade and colonies, to encompass the world. As they have grown, so other countries in turn have followed—not necessarily the same staged progress, but taking advantage of the lessons learnt by the pioneers, and managing to climb onto the trajectory of growth more quickly by telescoping the time to adapt and learn.

Africa, a continent rich in natural resources—mineral, agricultural and in
energy—is also rich in the youth of its population and the intensity of the desire of its peoples to succeed in growing their economies to match the living standards of the pioneer industrialised nations. The whole world is expanding links with Africa, so they can be part of the success of this last continent to join the world’s largest economies.

Renaissance wants to take you on a journey to show you what is happening. You will see a continent that is thriving, that is demonstrating rates of growth which will surpass that of all other continents, whose populations are becoming wealthier more rapidly than at any time in Africa’s history, and whose peoples have seen that they can achieve and succeed in this modern competitive world. Africa will be the fastest continent to reach the fourth economic age. It is and will continue to generate huge financial benefit for its peoples and for those who invest in its future. Renaissance is unequivocal in its enthusiasm. We are there now—we believe you should be, too. Follow us through this exploration of what is making Africa the most exciting continent to do business in and see why we believe that Africa will be the most exciting and rewarding continent for the next 30 years.

Africa has firmly shifted into the high-growth camp after the stagnation of 1980–2000, in line with the transition so many have made from the undemocratic post-feudal poverty that was the global norm in the 18th century to the high-income, low-corruption and generally democratic norms of most OECD countries in the 21st century. It is a combination of the demonstration effect of other emerging-market success stories and the higher aspirations from Africa’s youth to its leaders that perhaps form the most important catalyst. Others include Africa’s success in attracting foreign capital seeking higher returns. We believe that should inevitably benefit Africa today when returns in more-expensive developed markets threaten to be so low for years to come. A further catalyst is that productivity gains are made ever easier by technological transfers. The pace of technological innovation globally is now so rapid, and technology is so easy to transfer—as evidenced by the boom in mobile phone technology and the roll-out of broadband across the continent—that Africa is not just the recipient of technology, but via M-PESA banking is becoming an exporter of it.

The process of accelerating growth never happens overnight, but it is accelerating. What took the UK centuries can now be a matter of decades, or even years. The US and Germany “borrowed” and then improved on UK technology in the 19th century, Japan did the same more quickly in the 20th century and
China accelerated the process still further over the past 30 years. Today Africa has the greatest room to boom on the back of two centuries of global progress.

The take-off in Africa began around the turn of the century, 40 years after independence. Why not earlier? Because human capital was extremely constrained by a lack of primary and secondary education, while global capital could find better opportunities in countries such as China. Political leaders in the 1960s and 1970s were inexperienced, often self-serving and were offered contradictory advice on how best to develop a country. There were no strong Asian role models to emulate. International involvement in Africa was too often geared towards Cold War geopolitics, feeding civil wars and strife, rather than trade and investment.

What has changed? Many governments have learnt from their mistakes and seen the positive reform examples not just in Asia, but more importantly in Africa itself, from Mauritius to Botswana and Cape Verde, and now Ghana to Rwanda. In most countries there has been no single reform miracle, such as Deng Xiaoping’s first embrace of market capitalism in 1978 or India’s shift in 1991. Yet by gradually reducing the obstacles to business, the private sector has been able to thrive and aspirations have grown. Governments have supported this by using foreign debt forgiveness programmes to put public finances on a sound footing, and have been able to deliver the essentials of strong primary education and wider access to secondary school education. This in turn has provided higher-quality public administration and better workforces for the private sector. Higher growth has resulted, reinforcing government finances and providing funds for infrastructure investment. Stronger growth and good public finances—Africa’s numbers are far better than those of Europe, the US or Japan—has helped draw in record levels of foreign private-sector capital. The success of companies such as MTN has encouraged new foreign investors to seek out the opportunities in the continent. Productivity has improved as foreign investment has seen mobile telephony sweep the continent, making business and indeed government easier for all those now able to use a phone. That IT revolution is now fostering a banking revolution, with Kenya’s Equity Bank a leading example. At a time when excessive debt threatens to sink peripheral Europe, Africa has begun a banking revolution that should help the continent thrive.

The additional kicker of higher commodity prices after the 1980–2000 bear market has undoubtedly helped. Oil revenues that averaged approximately $34 billion per year in SSA in the 1990s more than trebled to $124 billion by 2005
and have since doubled again. Higher metal prices have seen new foreign direct investment in mines and infrastructure that has dramatically accelerated growth from Sierra Leone to Zambia. The stronger balance of payments has helped most in the continent move away from the growth-destroying uncertainty of bouts of currency weakness and very high inflation, towards a confidence-inducing environment of low inflation and higher investment. Yet commodities cannot take sole credit. Even those without mineral wealth are achieving great gains. Oil does not explain the doubling of GDP in Ethiopia, Rwanda, Tanzania and Uganda in the past decade. In these countries as well as the energy producers, the benefits of better governance, stronger public finances (aided by large-scale debt relief) and growth in the private sector have made Africa’s fastest billion people.

Why is the world slow to recognise Africa’s story? Partly the problem is that too many compare Africa today with Western countries or even established emerging markets today—rather than with OECD countries when they were at similar income levels. Among existing eurozone member states, there has been no military coup within the memory of most working-age adults (the last was Portugal’s in 1974), but we’ve seen two in West Africa in 2012. The corrupt politics and autocracy in many African countries is condemned without any reference to the fact that these were once common across Europe. Too many come to the facile conclusion that Africans are not suited to democracy, or don’t care about corruption, and this makes the continent un-investable. Such thinking was wrong in Asia in the 1970s, and wrong in Europe prior to that. France, after all, is still governed by a system born out of the coup that put General Charles de Gaulle in power in 1958.

Moreover, there is too little knowledge of what is changing in Africa because few outsiders ever knew what *The Economist* once dubbed “the doomed continent.” To be fair, the obvious improvement in Africa is only a little over a decade old. Global attention has been focused on China’s dramatic rise from the seventh-largest economy in 1999 to the second-largest in 2010, and the global financial crisis since 2007. It takes time for us to update our views—where once Hong Kong produced our cheap plastic toys and could not match the manufacturing skills of Western Europe, now China manufactures the iPad with which you may be reading this book. While Ethiopia in 1983-85 captured global attention when autocratic government, drought and war produced a famine that impacted horribly on 18 million children, no one now reports when it consistently succeeds in providing far more calories to 34 million children. Even the progress
Africa does make sometimes receives negative attention, from the problems of China financing infrastructure improvements, to the “carbon cost” as Africa exports vegetables to London and Moscow. A “negative halo effect,” as described in Daniel Kahneman’s book *Thinking, Fast and Slow*, engulfs Africa and could take decades to shift. We believe that focusing on what is changing, and showing the growth trajectory Africa is on, might help accelerate this.

We consider the impact of urbanisation, which is a widely documented trend in China, but few realise its 50% urbanisation rate is also shared with Nigeria. UN-Habitat estimates that 11 African cities will see population growth of over 50% from 2010–2025, including Lagos and Nairobi. Academic research is increasingly focusing on how urbanisation helps increase efficiency and productivity, an additional factor propelling Africa’s boom. Rendeavour, a development arm of Renaissance Capital, is now building the kind of modern cities required by this expansion, from Tatu City in Kenya to King City and Appolonia in Ghana. Africa’s surging population needs houses—but jobs, too. We expect manufacturing and service jobs to arrive in Africa, providing opportunities to the multi-decade 15–20% rise in the 15-to-24-year-old African cohort, at a time when East Asia tries to manage a 20-30% decline in that same demographic.

These are just two components in a SSA growth acceleration to 7-8% annually for the next four decades, with 9% for the lowest-income countries in the 2020s, and double-digit growth over 2030–2050. Africa today has already recorded a decade of growth double what it achieved in the late 20th century, and like India in 1990 after it experienced the very same, it is on course to deliver an outperformance that will rival the best we have seen in Asia. Of course the African growth story will not be uniform. In Asia, Singapore’s growth has so outpaced Myanmar’s that its per capita GDP is 58 times higher today. In Africa, too, some countries will lag. But the most successful will not only be far richer, but will be rapidly outpacing the slowing performance out of Asia and developed markets.

There will be a dramatic social impact. We expect healthcare spending to rise 16-fold by 2050, from $123 billion to $1,944 billion in today’s money, helped by public healthcare expenditure rising from 2.8% of GDP to 4.1% of GDP. The number of nurses will rise from less than 1 million to 11 million, and physicians from a World Bank estimate of 0.2 million to 4.4 million. The trend of falling HIV infection rates and malaria cases across Africa—both already down over a quarter from their peak—should accelerate and child mortality rates will plunge.
Public spending on education will expand from $93 billion to $1,384 billion by 2050, with the greatest impact on secondary schools. Primary-school enrolment was already 96% in 2005. Surging demographics will mean primary-school teacher numbers should rise from 4 million to 10 million. Secondary-school enrolment should top 50% by 2020, and be close to 100% by 2050. The two billion of 2050 will be the best-educated and best-medically supported people the continent has ever seen. Already by 2020, Renaissance expects a 72% real increase in healthcare and 69% rise in education expenditure from today’s levels.

Those of a nervous disposition may be reassured that security will have improved, too. Already the riskiest countries are clustered in Latin America, the Caribbean and the Middle East—not Africa, where conflict has decreased significantly since the Cold War era. Pan-African defence spending was only around $34bn in 2011, not quite enough to buy four US aircraft carriers. By 2050 the figure would be $471 billion, if defence spending is maintained at the current SSA share of 1.6% of GDP. But we would not be surprised if the figure is lower. The vast majority of countries will be democratic, and as democracies do not need to go to war with each other, governments should be able to spend more on much-needed infrastructure improvements.

Today we count 31 democracies across the continent, some strong and immortal, but many fragile and still vulnerable. Renaissance expects 50 democracies by 2050, with just a few autocratic, energy-rich exporters left that are wealthy enough to buy off their middle class. As soon as 2013, South Africa will join a few others such as Botswana and Mauritius above the key $10,000 per capita GDP level above which no democracy has ever died. Most of Africa will have crossed the same threshold to join them by 2050. Democratisation is an inevitable march, one which may not be as loud as the boots of soldiers interrupting this trend, but will nonetheless show steady progress. Morocco and Swaziland are likely to be the next to democratise within 10 years.

Corruption will not have disappeared by 2050. Neither democracy nor high per capita income are sufficient for all countries to achieve the near-perfect scores that Finland or New Zealand regularly record in Transparency International surveys. Yet already Africa surprises by having 14 countries that are less corrupt than per capita GDP implies they should be, and only seven that are

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1 Unless otherwise cited, projections throughout this book are attributed to Renaissance Capital Research.

more corrupt than is normal at these income levels. Renaissance does expect an across-the-board 24% improvement in the corruption score by the mid-2020s, with a further 10% improvement the decade after. Those countries that outperform on this index will do best in attracting foreign equity interest, including South Africa, Ghana and Rwanda. Those that underperform will still attract debt investors. Locals and foreign investors will feel the benefits of lower corruption, and governments can accelerate the process via Ease of Doing Business reforms, which pioneers such as Rwanda have enacted in recent years.

Africa’s place in the world economy will shift

Today the continent is using the benefits of high commodity prices and exports to China, to begin the process of infrastructure investment that accelerates growth. Renaissance sees huge room for this to expand. As the renowned economist Paul Collier has shown, in the year 2000, Africa had 20% of the discovered sub-soil resources per square mile that OECD countries have. The missing 80% is now being discovered. New iron ore projects in western and central Africa could add nearly 600mnt of output by 2022. Mozambique is on course to be one of the largest coking coal exporters by 2020. Commodity export growth, in minerals and agriculture, will be key themes in coming decades. They should help jump-start growth like the 33% GDP rise in 2012 that Sierra Leone assumes on the back of new mining production.

Each year, in the oil sector alone, a major new discovery is heralded, from Ghana to Uganda and most recently Kenya, pushing Africa’s share of world oil reserves to 10%. African oil production growth has already been the fastest in the world over the past 10 years, all of it in SSA. From 316,000 b/d in 1965, bringing in $1 billion of revenue (in 2011 dollars), SSA now produces 5.8 Mb/d, equivalent to all of China’s import needs, and delivering $235 billion of oil revenue annually or 20% of 2011 GDP. Renaissance expects volume increases to ensure this tops $300 billion even with no change in oil prices by 2019. Nearly a trillion dollars of oil revenue every three years means unprecedented inflows of foreign exchange to fund imports of investment and consumption goods.

Rapid economic growth means growing African demand for resources. Do not be surprised if Nigerian steel consumption rises from 1.6mnt annually today to 115mnt annually by 2050. African motor vehicle sales of 8 million by 2020 may reach 14 million by 2030, higher than the US today. The next Geely or Tata may well be found in Nigeria, Kenya or Ethiopia. Road and rail transportation

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demand will treble, while the number of passenger flights will more than double every decade from around 100 million today and 1.7 billion by 2050. Instead of just exporting commodities, Africa will be consuming them, too.

**An enviable macro-economic backdrop**

The macro-economic backdrop is probably the best it’s ever been in Africa, and supportive for stronger growth. SSA inflation dropped into the single digits in 2003, while government finances have vastly improved since a generation ago. While the West was on its debt-fuelled binge in the run-up to the global financial crisis, SSA was slashing its public debt ratio from 70% of GDP in 2000 to 32% of by 2009. As consumers in the UK, Spain and the US pushed personal debt levels towards 100% of GDP, household debt in Africa has remained at levels closer to 0-10% of GDP across much of the continent. And while Western banks promoted increasingly complex instruments that neither they nor their customers fully understood, Kenya’s Safaricom pioneered a new way of moving money via mobile phones that has provided access to financial services for millions. The increasingly well-known M-PESA system offers a template for the entire continent and much of the emerging world to copy from Africa.

Increased macro stability has helped deliver credit ratings across Africa that support the growing global appetite for African assets. Local-currency debt markets, which in emerging markets were short-term and volatile in the 1990s, already extend out to 30 years in Kenya. Local pension funds—with assets of nearly $260 billion in SSA—are significant players in local debt and equity markets, and we cautiously assume they will grow to $7 trillion in SSA and $10 trillion across Africa by 2050. Many African countries have already done more to encourage private pension provision than most Asian and many European countries, and will be in a strong position to provide a secure future for the fastest billion.

It’s possible that the Renaissance vision of a democratic, richer, healthier, increasingly educated Africa will be seen as optimistic. Or deluded, or self-serving. But we think that what we outline below will convince you otherwise.

Our base case is that Africa continues the trajectory it began a decade ago, taking up the baton of “fastest growth” from Developing Asia and India, as it follows the path they have already trodden, with added fuel provided by ever-larger global markets and new technology. The continent is already more democratic,
safer and better run than it has ever been. The macro framework is dramatically improved, thanks to better governance—recent negative examples such as Zimbabwe’s recent hyper-inflationary episode have only served to underline the benefits of good governance. We focus on Equity Bank in Kenya for the good reason that it highlights how technology and innovation are fusing in ways that mean Africa is leap-frogging into the future.

The development of new cities, the expansion of new mines and the exploration of the continent’s oil potential are all reasons why foreign direct investment is pouring into the continent. The Internet and broadband access help to reduce the “land-locked” constraint on exports. Governments are increasingly aware of the benefits of improving the Ease of Doing Business, as Rwanda shows as it emulates Singapore’s success of the 20th century.

Over-optimistic? We would prefer to have you finish this book asking why Renaissance Capital is so cautious in its outlook on Africa. And then we’d like to see you consider investing there yourself—just as we are.
"I like investing in places no-one else wants to go. That's what took me to Africa over 20 years ago when investing there was considered an act of criminal irresponsibility. This book, The Fastest Billion, should be banned. Anyone who reads it will realise that not investing in Africa now is an act of criminal stupidity. The place is going to be swamped with investors. I'm off to Greece."

Miles Morland  
Founder of Blakeney Management, the pioneer investor in African markets, and later DPI, the African private equity investor

“This book is very encouraging, it assembles the data and facts that point to how Africa will and is moving ahead, faster than the international commentators care to report.”

Mike Moore  
Former Prime Minister of New Zealand  
Former Director General of the World Trade Organisation

“Africa’s prospects warrant a fundamental reassessment of both returns and risks as perceived by investors. This new book provides a solid evidential base.”

Paul Collier  
Professor of Economics, Director for the Centre for the Study of African Economies at The University of Oxford

"This is an exciting and eye-opening book for anyone interested in economic growth or in Africa. The argument is powerful. The research is meticulous, whether on democracy and elections, as on oil and gas prospect, or macroeconomic choices. By the final page, it is hard not to be persuaded that Africa’s time is now. This really is a must-read.”

Professor Ngaire Woods  
Dean, Blavatnik School of Government, University of Oxford

“The Fastest Billion is a realistic roadmap for Africa’s coming prosperity. This is a mandatory handbook for policymakers, practitioners and students of contemporary global development.”

Professor Calestous Juma  
Harvard Kennedy School, Cambridge, USA and author of The New Harvest: Agricultural Innovation in Africa

“The Fastest Billion is an exciting manifesto, a challenge to all to ensure that Africa’s long-proclaimed potential is fulfilled at last and benefits all its people.”

Richard Dowden  
Director, The Royal African Society

Renaissance Capital

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