



ON MY MIND BY IAN MACLEOD



INVESTING IN AFRICA

On a vast continent of 54 countries, where do you start? A new report digs into the details to answer that question

It is one of the great questions for investors, C-suite executives, business strategists and economists: where should we invest in Africa (beyond our borders)? Few would deny the opportunities. From commodities and agriculture to technology and tourism, Africa's 30-million square kilometres abound. And therein lies the problem. Where do we start?

Firms from multiple markets have in the past made large investments in the continent's fast-growing economies. The results have been mixed. Some venerable South African businesses are cases in point. Shoprite went far and fast, experiencing material losses before finding its pan-African footing. Nampak, Truworths, Mr Price, Telkom and Woolworths had similar troubles. MTN has had great success, with notable problems. Sanlam has thrived, specifically through its investment in the then Saham Assurance Maroc.

Isaah Mhlanga, chief economist and head of research at Rand Merchant Bank (RMB), captures the heart of the challenge. "Africa is not one place," he said at the recent launch of the "RMB Where to Invest in Africa 2024" report. "This is a vast continent of 54 countries. The nuance between the countries and even within them is a vital element in guiding business decisions."

This is where the "RMB Where to Invest in Africa 2024" report comes in – a high-powered quantitative tool to score the overall investability of 31 African nations, accounting for more than 90% of the continent's GDP.

In ranking and assessing countries, 20 metrics are grouped into four pillars which measure the following: economic performance and potential; market accessibility and innovation; economic stability and investment climate; and social and human development.

All datasets are curated from publicly available sources. For example, in the first pillar GDP per capita data is drawn from the World Bank, and in the fourth pillar the human development score is derived from the UN Develop-

ment Programme.

Data fundis will note that these scores are all very different. Prof Adrian Saville of the Gordon Institute of Business Science, who contributed to building the model, explains the work-around for this.

"GDP is a US dollar figure, population size is a number of people, and some scores – like economic complexity – are composite rankings that researchers have built. To avoid comparing apples with bananas, we boil all metrics down to a single Z-score. This puts the middle score at zero. A country with a score of one is a single standard deviation higher than this middle nation. Negative scores indicate how many standard deviations, or parts thereof, a nation is below the middle. Now we're comparing apples with apples."

The upshot is 20 weighted metrics to produce a ranking for 31 countries. This sums to an overall ranking of investability. But, far from being the end point, this is the beginning. "The benefit lies in the nuance," Mhlanga says. "This model is a starting point. It gives us the power to drill deeper."

Saville adds: "For example, Seychelles and Mauritius are the top scorers on the overall model. What do we do with this information? Does it mean all businesses should charge into these tiny islands? Absolutely not."

"Think of it more like determining

that the tallest child in a class is Sam. You wouldn't assume that Sam must be excellent at basketball. That is possible; but you have to explore further. What is Sam's co-ordination like? What is Sam interested in?

"In this case, we've established that Seychelles is a fantastic investment destination. But we also know that the island nation's population is tiny. This is not a place for a mass-market business – such as selling disposable diapers or razors – despite the high ranking. Hotels and investment offices are a different story."

For this reason, the model also groups African nations into archetypes. "While each nation is unique," Mhlanga says, "we can determine underlying drivers that are common to groups of nations."

The "Cleared for Take-off" archetype is one example. This plots countries by their GDP growth forecast and their innovation score. Here Senegal and Rwanda stand out for their high scores.

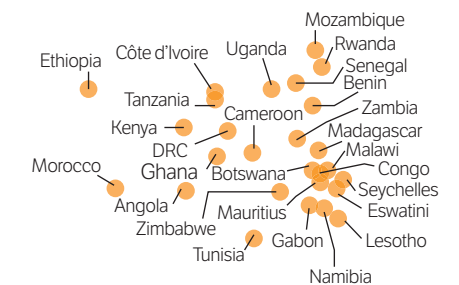
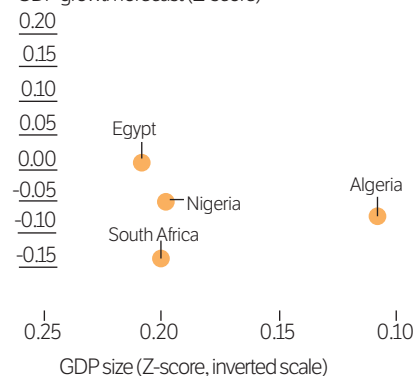
The "Low-Base Boomers" combine a small GDP with a high GDP growth forecast. Now we're talking about Mozambique, Rwanda and Senegal.

So, where to invest in Africa? There's no short answer to that. But we can rely on an African proverb: the only way to eat an elephant is one bite at a time. The "RMB Where to Invest in Africa 2024" report curates billions of bytes for the hungry Africa-centric investor. **X**

Macleod is a partner at Boundless World and advised on the construction of the report

LOW-BASE BOOMERS

GDP growth forecast (Z-score)



Source: RMB Where to invest in Africa 2024 Report