CAN GREED SAVE AFRICA?

By Roben Farzad

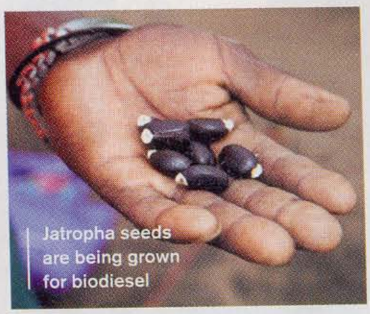
Photography by Jason Tanaka Blaney

Fearless investing is succeeding where aid often hasn't

In Lagos: Sangudi and Okoloko are fixing Nigeria's only nitrogen fertilizer plant

It isn't easy for Masoud Alikhani to check on his investment. The Iranian-born Briton owns a facility in Mozambique that turns jatropha, a hardy, drought-resistant plant, into biodiesel. An October visit starts with an 11-hour flight from London, his home base, to Johannesburg. From there he jumps into a four-seat Piper Seneca II for a wobbly three-hour flight to Maputo, Mozambique's capital, during which one of the passengers, this writer, gets violently ill. On landing at Maputo's airport, where soldiers stand guard on the roof, Alikhani spends an hour wading through the bureaucratic muck of visa clearance and immunization checks. Then it's back on the plane for a 90-minute flight along the Indian Ocean coast to the province of Inhambane. At the 7-Eleven-size airport there, Alikhani is met by his brother and business partner, Said, for a 90-minute drive past wayward livestock and random brush fires to the village of Inhassune. At the end of a long dirt road, on a vast tract of reclaimed scrubland, sits the Alikhanis' massive biofuel complex. They try to visit every two months.

The brothers are among a growing cadre of intrepid investors looking for treasure in the 30-plus sub-Saharan African nations stretching from Mauritania and Somalia in the north to the continent's southern tip. There's no blueprint for this kind of investing: The best opportunities must be dreamed up and then created from scratch. The Alikhanis saw upside in a fallow cotton plantation. In Nigeria, U.S.-based private equity firm Emerging Capital Partners last year helped acquire an abandoned factory in hopes of supplying the continent with desperately needed fertilizer. South Africa-based microlender Blue Financial Services, energized by an investment from Wall Street last year, now has 171 branches in nine countries, with offices opening soon in Rwanda, Cameroon, Swaziland, and elsewhere. All told, at least $2.6 billion in private equity deals have been struck this year in the region (excluding more-developed South Africa), nearly seven times the 2005 figure.


Jatropha seeds are being grown for biodiesel

This is the investing world's final frontier, so undeveloped and impoverished that it makes other extreme emerging markets like Colombia and Vietnam seem like marvels of modernity. Airports open and close arbitrarily. Roads are often unpaved and clogged. Gasoline and diesel are scarce, and rolling blackouts common. The medical precautions are even more forbidding: Traveling to mosquito-infested interiors requires a round of injections and weeks of antimalarial pills that often induce hallucinations.

In many ways, Africa's economic situation seems hopeless. While $625 billion in foreign aid has poured in since 1960, there has been no rise in the region's per capita gross domestic product, notes William R. Easterly, economics professor at New York University. What's more, from 1976 to 2000, Africa's share of global trade dropped to 1%, from an already negligible 3%. The U.N.'s scale of human development, which considers health, education, and economic well-being, ranks 34 African nations among the world's 40 lowest. Thus far, foreign aid hasn't made a dent.

Greed, however, might. Thanks to the global commodities boom of the past few years, sub-Saharan Africa's economies, after decades of stagnation, are expanding by an average of 6% annually—twice the U.S. pace. And like bees to honey, investors are swarming into the region in search of the enormous returns that ultra-early-stage investments can bring. Blue Financial, for example, has already netted its early private equity backers a ninefold gain thanks to the 385% rise in its stock since its October, 2006, initial public offering in Johannesburg. Emerging Capital Partners has bought all or part of 42 African companies this decade and cashed out of 18, with gains on their investments averaging 300%. "The money we can make is matchless," says Emerging Capital Partners CEO Thomas R. Gibian, a former Goldman Sachs banker.

The region's public stock markets are attracting foreign investors, too (page 052). Stocks in resource-rich nations such as Botswana, Nigeria, Zambia, and many others are rising to record highs. In recent months, investment bank UBS and others have published thick reports on Africa's investing opportunities, hailing as a major virtue the fact that markets there don't move in tandem with those of the rest of the world.

Demand for African stocks is so robust, in fact, that it has created a bottleneck. Because these markets are tiny and illiquid—Zambia's total market value is just $2 billion—foreigners can't pile in all at once. Those who don't want to wait on the sidelines must find their own opportunities away from the stock exchanges. "The private equity skill set is really in demand here," says Gibian. His firm has invested more than $400 million in sub-Saharan Africa this year, vs. $325 million in the previous six years combined.

Of course, these investors may well be courting disaster. International monitors consistently place the region in the

THIS IS THE INVESTING WORLD'S FINAL FRONTIER, SO UNDEVELOPED IT MAKES COLOMBIA AND VIETNAM SEEM LIKE MARVELS OF MODERNITY

Mercy Mubanga has used microloans to expand her chicken business

lowest tier of their rankings for business friendliness. Some governments, such as that of Zimbabwe President Robert Mugabe, expropriate assets outright, while others bleed businesses dry over time. If those problems don't do lasting damage to an investment portfolio, a commodities crash certainly would. A mass exodus of investors would snuff out Africa's flickering progress in a hurry—not only its GDP growth but also the burgeoning informal economy that isn't counted in official statistics: backyard and roadside businesses that have suddenly arisen to tap the continent's growing income.

Many African leaders have come to regard private investment as the only route to sustainable economic development. "Investors put their money down for what they will get as a profit," says John Agyekum Kufuor, Ghana's President, in his palace in the capital city of Accra: "It's business." Botswana President Festus Gontebanye Mogae even appealed directly to private equity and hedge fund managers during a September trip to New York. Over time, these leaders hope, the benefits accruing from private investment will give locals more of a vested interest in the permanence of historically volatile institutions—governments, currencies, banks—and put sub-Saharan Africa on a path to self-sufficiency. But for that to happen, the region must first prove that it can be hospitable to cold-eyed investors.

Masoud Alikhani is no moral crusader; he thinks the "We Are the World" movement of the 1980s, which sought donations to end African hunger, "made beggars of whole nations." The burly 66-year-old is among the new wave of investors at the tenuous nexus of venture capital and agribusiness in Africa. Five months ago he pitched a large hedge fund in New York on the merits of ESV Biofuels, as his company is called. The fund's partners agreed to take a tour of the facility in January. "We are capitalists and opportunists," says Alikhani. "We are doing this to make money. That's the only way to help."

Mozambique, one of the poorest and most neglected places in the world, seems frozen in time. After wresting independence from Portugal in 1975, the nation was ravaged by a civil war in which more than 1 million of its citizens were killed, maimed, or displaced. An uneasy peace arrived only in 1992. Since then the country has been on the tumultuous path to economic liberalization, alternating between double-digit growth and recession. More than three-quarters of its people remain desperately poor. Yet as Alikhani watches children pick through dumpsters outside Maputo's airport, he sees only upside. "Mozambique," he says, "is booming."

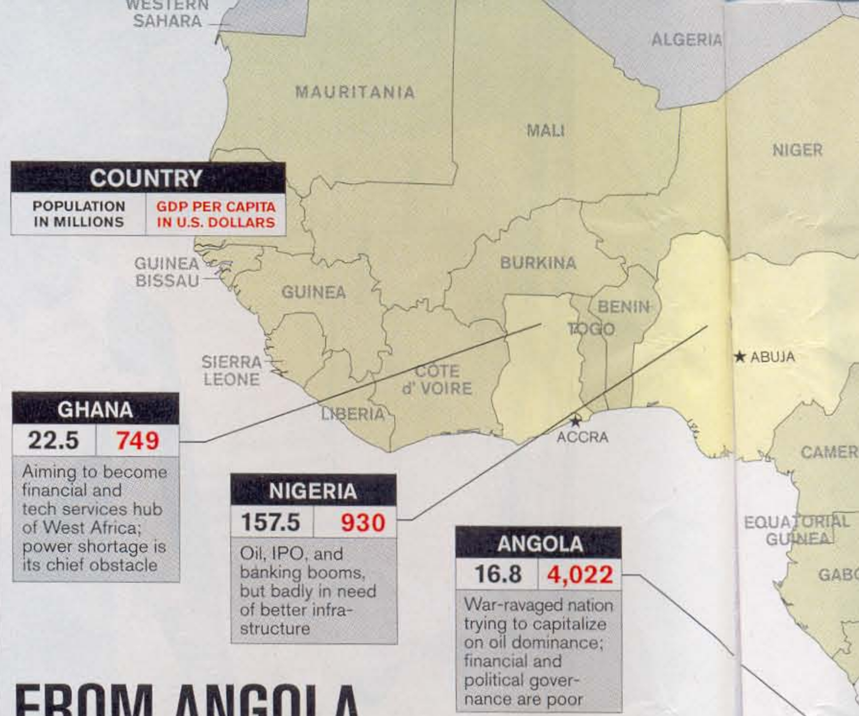
With a degree in agroeconomics, Alikhani seems most comfortable when ticking off facts about crop yields and other arcana. He earned his Wall Street bona fides during stints as a trader at Prudential and Lehman Brothers in the 1980s. From 1993 to 1998, he was CEO of a steel, metals, energy, and agribusiness concern in emerging Russia. Today, in addition to his ESV duties, Alikhani holds board seats at three small, publicly listed commodities companies, including a diamond miner.

But ESV is a whole other bag of seeds. Last year, it bought a long-abandoned cotton plantation in a malaria-laden stretch of Mozambican bush, grabbing 27,000 acres with a lease for 198,000 more. It expects to plant nearly 17,000 acres, harvest its first jatropha seeds, and press its first batch of oil by this time next year. Assuming the Alikhanis and their two other partners succeed in wooing outside investors, ESV could break even by 2011—and sooner if biofuel prices keep rising.

Already, ESV has become the province's biggest private employer, with a staff of 620. Locals who hadn't earned money in years are making from $60 a month to as much as $2,000 for managers. "When we started, we told people it is a startup, a cash-eating animal," says Said Alikhani. "The faster we begin production, the sooner the benefits come to all."

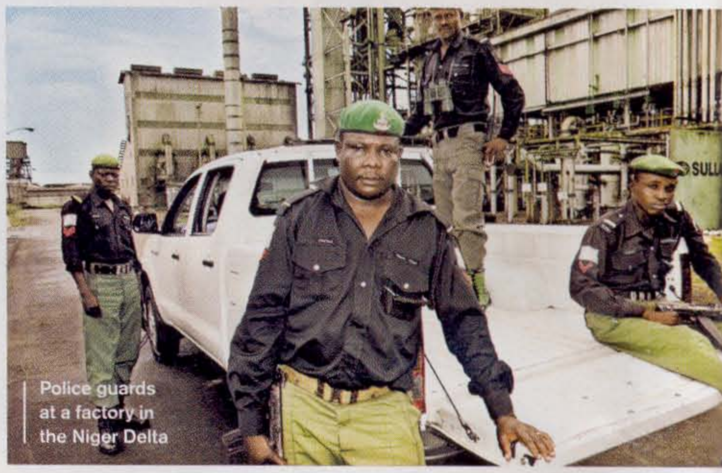
Inhassune's revival is already under way. Mosquito control, power lines, and potable water have quickly arisen from a barren stretch of bush. "I'd be the last person in the history books to go down as a philanthropist," says Renier van Rooyen, ESV's South African on-site manager. "But you cannot run a business when your workers are out with malaria or sick from dirty water." On a warm weeknight, villagers greet the season's first rainfall with dancing and singing. "There was nothing here before," shouts Ineve, a fieldworker, over beating drums. Others proudly brandish newly issued government ID cards. ESV employees have been lining up behind the schoolhouse for hours to register to vote for the first time in their lives.

Women stand out as the most eager beneficiaries of the ESV experiment. Many walk as far as five miles each way to get to the plantation. (The Alikhanis say they plan to import bicycles from London.) Women are also disproportionately willing to budget the time and money to tend small patches of onions, maize, and papayas, which they sell at Inhassune's new 20-stall marketplace. In a nation haunted by AIDS, "women who work are not subordinate to the will of men with risky behaviors," says Pablo Smango, a public-health inspector in Beira, Mozambique's second largest city. "They control more of their own destiny."



FROM ANGOLA TO ZAMBIA

An atlas of sub-Saharan Africa's challenges and opportunities for investors



Police guards at a factory in the Niger Delta

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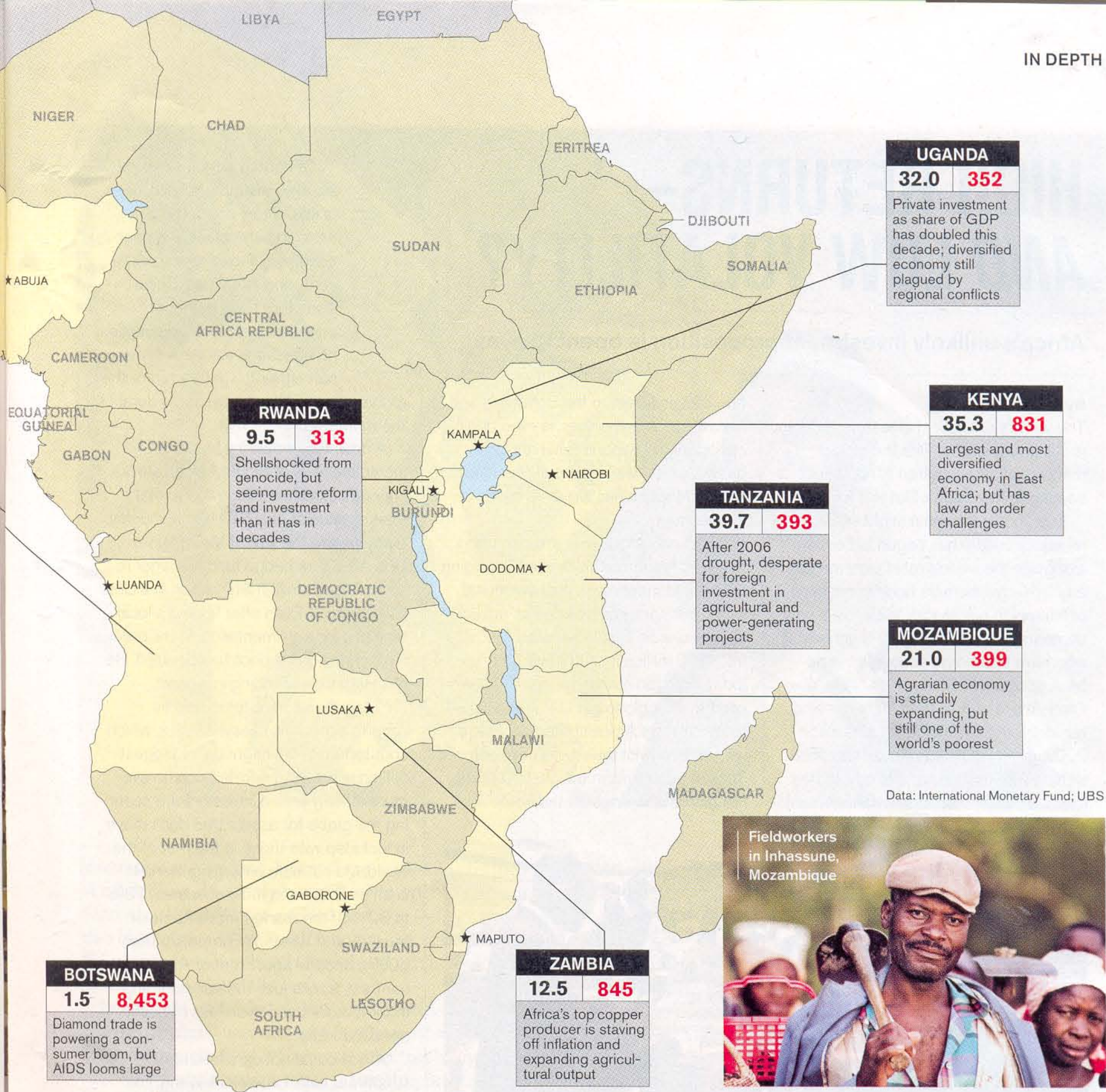
MAP BY ALBERTO MENA/BW

PROMISE AND PERIL

The most obvious investing opportunity in Africa lies in its most pressing need: food. The continent supports one-seventh of the world's population and holds nearly a quarter of its land. But according to UBS, sub-Saharan Africa produces just $178 worth of goods per agricultural acre, compared with $457 in Latin America and $1,077 in Asia. A crippling fertilizer shortage is the main problem.

Emerging Capital Partners, the biggest U.S. private equity firm operating in Africa, sees opportunity there. Among



Data: International Monetary Fund; UBS

Fieldworkers in Inhassune, Mozambique

MAP BY ALBERTO MENA/BW

its most daring investments is a $35 million stake in Notore Chemicals, a massive fertilizer project in the oil-producing Niger Delta, home to daily kidnappings and an ongoing armed rebellion. Government graft and neglect ran the 12-year-old plant aground in 1999; Emerging Capital bought its stake in the shuttered facility in 2006. "The government figured a dollar in its pocket was more valuable than the $10 it would make by fixing the conveyor belt," says Genevieve L. Sangudi, a 31-year-old Tanzanian-born, Columbia University-educated MBA who shuttles in from her home in Washington to oversee Emerging Capital's portfolio.

A trip to Notore's facilities in the heart of the Delta shows both the promise and the peril of investing there. The first leg of the journey is to Lagos, Nigeria's commercial capital of 15 million, as dysfunctional and chaotic a city as any on earth. Packed minibuses sit bumper to bumper on overburdened highways as beggars tap windows in search of charity. The landscape is dotted with barbed-wire fences and burning piles of trash. "If someone in Lagos sees a pothole," goes a local saying, "he doesn't ask why it isn't filled, or where to find the gravel to fill it. He wonders: 'Where can I buy tires big enough to ride over the pothole?'" It takes two hours to travel the 18 miles from the airport to the Protea Kuramo Waters hotel, a high-gated, diesel-generated fortress where, because of the chronic lodging shortage in the city, occupancy is reluctantly granted at $500 a night, a sum that doesn't guarantee a working toilet.

The next stop in Notore's private airplane is Port Harcourt, a bleak Delta city an hour away. The locals here have endured years of neglect at the hands of multinational oil companies and government officials easily bribed out of enforcing envi-

HIGH RETURNS–*AND* LOW VOLATILITY?

Africa's unlikely investment proposition is opening eyes

By Roben Farzad

The world's unlikeliest investment boom is still going strong, with the stock markets of sub-Saharan African nations soaring to new highs. But is it for real?

Improbable though it might seem, an equity culture has begun to flourish alongside the world's most extreme poverty. In Kenya, farmers flock to the capital of Nairobi to buy stocks. In Lagos, a new demographic has emerged: Nigerians who have brokerage accounts but no bank account. In Ghana, Ken Nana Yaw Ofori-Atta, a mutual fund manager who has delivered 48% annual gains since 2002, greets a crowd outside his office waiting with cash in hand to buy shares. Imara, a pan-African asset management firm that established the Botswana and Malawi stock exchanges, is even finding opportunity in hyperinflationary Zimbabwe, where the regime of President Robert Mugabe has wreaked havoc on the economy.

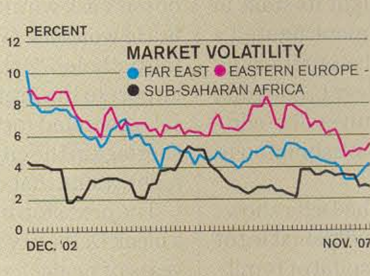
It isn't only locals who are clamoring to get in. Arlington (Va.)-based Emerging Markets Management, an institutional asset manager, has boosted its public equity position in sub-Saharan Africa from $70 million in 2001 to $1.2 billion today. Portfolio manager John R. Niepold used to struggle to get U.S. institutions to invest in his Africa strategies. Those who let him twist their arms have enjoyed 30% annual gains in the past 10 years. His phone now rings off the hook.

The stock exchange in Lagos, Nigeria

WHO WOULD'VE THOUGHT?

Sub-Saharan African stocks soar...

...and with less fluctuation



Data: Exotix

Of course, Africa's natural bounty—diamonds, gold, oil—is its primary draw. The Chinese, in particular, have been devouring those resources, venturing into Chad, Sudan, and other flash points of controversy to lock up supplies, no questions asked. A sudden halt either to China's run or the global commodities boom could derail the momentum.

A downturn would lay bare the incredible risks of illiquid African stocks. Nigeria's stock exchange has a total market value of only $70 billion, roughly equivalent to the size of McDonald's. One New York hedge fund manager recently tried to invest $10 million in a Côte d'Ivoire stock. Even after finding a local broker, it took six months to fill the order. By then the share price had doubled. He has little hope of selling in a panic.

Yet such risks are tempered by Africa's economic idiosyncrasies, which, counterintuitively, might be its biggest selling point. As markets become ever more closely linked, investors are scouring the globe for assets that don't move in lockstep with those in the rest of the world. Mainstream emerging markets such as Brazil and India now track 70% to 80% of the market movements of the U.S. and Western Europe, up from 50% a decade ago. Frontier Africa, in contrast, tracks just 10% of emerging market moves and even less of developed markets.

"Africa could not care less about subprime," says Charles H. Wang, co-director of research at Boston-based frontier-investing firm Acadian Asset Management. He points to Côte d'Ivoire's 14% surge in August, when global stock markets fell in unison amid a credit squeeze. Says Wang: "This kind of growth and diversification are the closest thing to a free lunch." Zachary J. Pessin, CEO of Distributed Capital Group, a New York emerging markets investment firm, notes that "in some places in Africa, you can earn double-digit yields and hedge against dollar depreciation with the same investment. This has never been possible before."

CHARTS BY ERIC HOFFMANN/BW

ronmental regulations. Natural gas, a valuable by-product of oil drilling, is simply burned off in open flares, further darkening the Delta's wretched air. "The Delta is now Nigeria's biggest risk," says Bolaji Balogun, 40, founder and CEO of Lagos investment bank Chapel Hill Advisory Partners. "It needs its own Marshall Plan."

Emerging Capital and Notore want to redirect natural gas to a more beneficial use: nitrogen fertilizer, of which natural gas is the main ingredient. "You cannot let this humongous asset waste away while Nigeria flares gas and imports fertilizer," says Onajite P. Okoloko, Notore's 41-year-old chief executive. The Delta native shakes his head as he recalls his father and uncle blaming God instead of tired soil when their maize and fruit crops wouldn't grow for consecutive seasons. "Half of Nigeria's economy is agriculture," he says. And yet "70% of the country sits on arable but poorly used land. Do the math."

'AN AMAZING OPPORTUNITY'

On their arrival at Port Harcourt's tiny airport, Okoloko and Sangudi are greeted by a former U.S. Special Forces operative turned mercenary for Notore. He ferries the group into a double-armored SUV. At the airport's exit, a local armed guard jumps in. "Welcome," he says, clutching a machine gun. A flatbed pickup truck with five more armed guards leads the nervous procession.

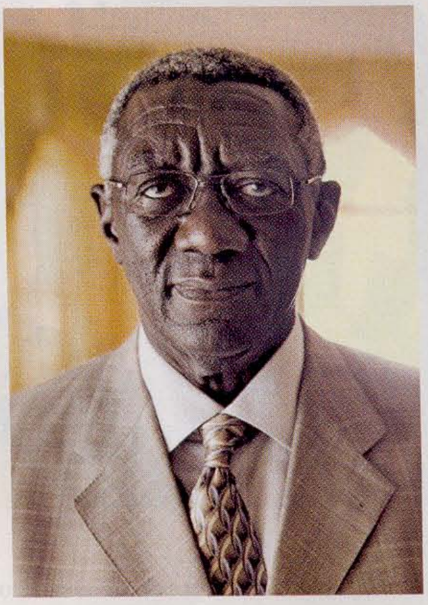
The 1,380-acre Notore facility, rusting and overgrown with weeds, sits in a marsh surrounded by gas flares. The decrepitude belies Emerging Capital's tall plans for the plant: By next year, Notore will become the only nitrogen-based fertilizer producer in sub-Saharan Africa, going from zero output to 600,000 tons per year of high-grade urea pellets. Okoloko is looking to hire 1,000 locals. Having locked in a 20-year gas contract on favorable terms, Notore will produce its fertilizer at less than $100 a ton; the market price is $350 to $450. "It's stronger and cheaper than much of what you find in the West," says Sangudi. "An amazing opportunity." "We want to compete internationally," adds Okoloko. "But we have to take care of Nigeria and Africa first."

Mother and child in a medical clinic in Inhassune, Mozambique

Sangudi will be moving from Washington to Lagos in a few months, another young financier flocking to the region. Bankers and buyout shops—from Renaissance Capital and Morgan Stanley to Deutsche Bank and JPMorgan Chase—are piling in, trying to one-up each other by offering huge signing bonuses for local talent. "The capital coming in is blind," says one of Sangudi's friends, who works for a big private equity rival. "It needs my eyes." The influx is worsening an already dire housing shortage. Owners of decent apartments in Lagos now demand as much as three years' rent in advance. Sangudi notes with bemusement that leasing a two-bedroom unit could set her back as much as $80,000. "There is serious money to be made here," she says.

Agriculture isn't sub-Saharan Africa's only investment draw. Microlending—the making of small, unsecured loans to ordinary people—is bringing in big profits for a raft of publicly traded companies all across the continent. Blue Financial is among a new breed of so-called salary-microlenders, which make loans only to formally employed borrowers and take payments directly from their paychecks. The set-up helps Blue manage its risks: Bad loans are only in the 3%-to-4% range, remarkably low in a part of the world where fewer than one in five people has a bank account.

Unlike its peers, however, Blue has turned a relatively small Wall Street investment into rocket fuel. Early last year it secured $15 million from insurance giant American International Group. The deal gave AIG a 23% stake in Blue and two board seats—and gave Blue the imprimatur of a Wall Street titan. Blue expanded its operation from three nations to nine in a year. That burst set the stage for Blue's IPO last October—fresh capital that has spurred even faster growth.



Ghana President Kufuor: "Investors seek profit"—and that's O.K. with him

Blue has also turned its equity into a critical component of its lending process. It uses the cachet of its AIG stake and surging stock price to coax cheap capital from development banks like International Finance Corp. and the Netherlands Development Finance Co. "Our equity investors give us leverage," says David van Niekerk, Blue's 34-year-old founder and CEO. "All of a sudden, knocking on doors has become a hell of a lot easier. You have to play that trump card." Blue keeps its cost of capital low—around 14.5%—and loans money in the 20% to 30% per year range, a fraction of local interest rates. Brisk demand for loans has sent its revenues jumping 140% this year as earnings per share have soared 400%.

On a chilly October morning, van Niekerk, tanned and dressed in a crisp peach-colored oxford shirt, looks more like a playboy than a financier. He's aboard the company's swank eight-seat jet for a trip to branches in Botswana and Zambia. The plane lands in Gaborone, a global diamond hub near the Kalahari Desert that's plastered with ads from local loan sharks. Thebo, an electrician, waits outside Blue's branch practicing his lines. He's in the market for a home-improvement loan, in a race against the soaring cost of cement. "I need this," he says. "I can't afford to stop buying petrol and food just to work on my house." Behind him is an ad for funeral insurance. Botswana is full of reminders of mortality; AIDS afflicts up to a third of its adult population. Van Niekerk goes into the back office to check on a row of salary-verification agents who typically approve applicants within an hour.

By lunchtime, the jet is off to Livingstone, Zambia, a tourist hub near the breathtaking Victoria Falls. In town, branch manager Calculus Siachono reports that Blue's business is brisk. He notes with pride that a local man is making a fortune building and selling oxcarts and is on his fourth loan.

Some complain that Blue's salary-based lending does nothing to help unemployed or informal workers. Critics also argue that Blue takes advantage of its borrowers by, essentially, mortgaging their future labor. "It's indentured servitude," says Wagane Diouf, a native Senegalese who runs AfriCap Investment, a private equity firm that invests in microfinance companies that don't use paycheck deduction. Van Niekerk counters that Blue has no recourse if a borrower loses his job, and that Blue's development-bank financing stipulates that its lending can't be abusive. "Why would we jeopardize that?" he asks. One financier says salary microlending is hastening economic evolution. "Pioneers in African banking collect high fees. But others will come in to compete, and eventually the banks will buy them all out—and everyone's borrowing costs fall."

That result won't come to pass, of course, if Africa's inexperienced borrowers turn out to be worse credit risks than microlenders anticipate. But the case of Mercy Mubanga, a 52-year-old grandmother, widow, and breadwinner for a family of eight, offers hope. She earns $185 a month as a police department secretary in the township of Maramba, in southern Zambia. Thanks to three loans from Blue—at progressively lower interest rates—she has tripled her income by moonlighting as a backyard poultry farmer, raising chickens to sell in the village market. After paying for a tin roof and hiring two men to expand her coop, Mubanga now seeks another loan to double her flock, school her two grandchildren, and perhaps build an extension on her tiny house. "We really must have more space," she says, rocking her 2-year-old granddaughter.

New York investment bank Nova Capital Partners helped make Mubanga's transformation possible. The seven-year-old boutique has found a profitable niche lining up financing for African companies. In early 2006, Blue hired Nova to find a Wall Street backer. Nova, aware that AIG's money managers were looking to expand its Africa portfolio, made the case for Blue—and scored the investment. That cash, in turn, made possible Mubanga's loans and many others. But Nova's bankers are unsentimental. "We're driven by what our investors want—returns," says Nova Senior Partner David S. Levin, ripping into a crab cake at New York's Palm West restaurant. "There's only so much time to do this before everyone else gets in." | BW |

BUSINESSWEEK.COM | The author's online capsule of his experience in Africa includes a podcast, photos, and three narrated slideshows: Microlending in Botswana and Zambia; finding opportunity in the dangerous Niger Delta; and agribusiness in Mozambique