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Reset and Revitalise: UK-Africa *Trade and Investment*

TONY BLAIR INSTITUTE FOR GLOBAL CHANGE

Contents

3 Executive Summary

6 The UK's Relationship With African Countries Today

12 Sectoral Strengths in African Economies

26 Trade

32 Finance, Debt and Investment

37 Recommendations

47 Annex

58 Sources

01

Executive Summary

After a recent trend of declining trade activity, the United Kingdom has the opportunity to reset its relationship with African countries, which are growing rapidly and represent a sizeable proportion of the global economy of the future. While forging new international connections, African countries are undergoing rapid economic growth and technological advancement with an emerging middle class and a sizeable demographic dividend. The UK's leadership in sectors such as financial services, technology and clean energy ensure it can be a reliable and important trade and investment partner for those countries.

A series of consultative workshops produced the findings upon which the recommendations in this report are based. These workshops highlighted that the UK must not be complacent about its relationship with African countries. Trade has flagged despite significant economic growth on the continent: African GDP has grown more than 20 per cent in the past decade but UK exports to Africa have halved during the same period. The UK's leaders have taken existing relationships with African countries for granted, even as those countries are finding increasing global recognition in multilateral international forums. The UK has expressed its own priorities but failed to recognise and meet the priorities of African countries. The thrust of engagement has predominantly been conducted through foreign aid, neglecting the new and emerging economic opportunities and the new geopolitical importance of African countries. An updated UK-Africa trade strategy should cohesively address both British and African priorities to achieve mutual prosperity and cooperation.

Global alliances have become more important than ever, especially when set against the growing threat to multilateral systems and international laws. The UK must navigate a rapidly evolving and competitive global landscape, establish a new identity after Brexit and revise its current approach to African countries' priorities and development goals, as these countries will be key partners in preserving and protecting their own stakes in multilateral systems and international laws. African countries are also critical in fighting the shared challenges of climate change: it is in

Africa where the impact will be most severely felt and where most critical minerals for green technologies are found. Tackling these challenges will require a comprehensive review of trade and investment policy, enabling infrastructure and market structures at all levels, and close partnerships with African counterparts to ensure sustainable success.

The UK should prioritise partnerships with African countries to unlock:

- Economic opportunities in critical minerals, green technology, the digital economy, and the finance and creative sectors.

- Trade in strategic areas and where growth has lagged through support for the realisation of the African Continental Free Trade Area (AfCFTA) single market.

- Targeted investment to capitalise on strong UK performance in foreign direct investment (FDI) and diversified investment flows.

By recognising these priorities, the UK-Africa relationship can be fortified to realise untapped opportunities for both.

Through research and a series of consultative workshops in East, West and southern Africa, as well as the UK, we have identified key recommendations to work towards mutually beneficial trade relationships between the UK and African countries. These consultations gathered insights from relevant African and UK stakeholders with a focus on representations from policymakers, the financial sector (including development finance), clean energy, technology and manufacturing. Our analysis focused on the strategic sectors in African economies, international trade and investment. More information about our methodology and the findings from each of the four workshops can be found in the Annex.

Based on our findings, we recommend that the UK government:

1. Revise trade policy to support Africa-UK trade led by a joint UK-Africa trade commission.

2. Expand UK support for the establishment of the AfCFTA.

3. Harness British finance for Africa's trade and development agendas.

4. Focus on digital services and digitalisation of trade through its negotiation of free-trade agreements, including digital-economy agreements with certain African countries.

5. Offer UK support for African energy needs and objectives to meet developmental requirements.

6. Support the establishment of African carbon markets, offering climate finance for decarbonisation.

7. Expand the Africa UK Investment Forum to include additional countries, with a focus on diversification.

8. Reform the UK's complex and expensive visa process to enable closer business ties between the UK and African countries to accelerate green transition.

9. Leverage soft power through international institutions, the education sector and diplomatic capacity to drive trade and investment flows.

Editor's note: We are grateful to Standard Bank for their support towards the research presented in this report. The analysis and conclusions of this report are solely the responsibility of the Institute, in line with its intellectual independence policy.

02

The UK's Relationship With African Countries Today

Across Africa, speed has become the key word: the region boasts the fastest rate of funding for startups up to 2021, the fastest rate of internet-usage growth, the fastest rate of urbanisation and the fastest-growing economies. Kenya has developed the world's first mobile-money network with more than 2.28 billion fintech-enabled transactions in 2022. The continent's appetite for technological innovation and the widespread untapped opportunities in this area have underpinned significant private-capital inflows that have proved resilient to shocks in recent years. Nigeria, in particular, is home to multiple technology unicorns following recent funding rounds; South Africa was voted the top destination for business-process outsourcing in the world.

Uganda has pioneered the use of a biomedical jacket that accurately diagnoses pneumonia, while Rwanda uses drones to deliver blood across mountain ranges to patients in need. Many of the continent's countries are leading producers of critical minerals and quickly becoming emerging manufacturers of green technologies using critical raw materials such as lithium, copper and cobalt, which are vital for the global green transition. Kenya is now the global leader for renewable energy, with 86 per cent of energy provision now coming from renewables and the country galloping towards a 100 per cent transition by 2030. The young economies of Africa are driven and ready to create new jobs for their people, to transform and grow their economies, and to do business with the world.

Africa, as a region, will be home to the largest and youngest working population by 2050, with one in five of the world's consumers. Any future-oriented country knows that African countries already represent a critical investment market. The UK has a longstanding but complex relationship with African countries, as one of the largest investors on the continent and a historic trade partner. One and a half million people in the African diaspora live in the UK (around 2 per cent of the UK population) according to the Office for National Statistics (ONS), while it is estimated that between 2 million and 2.5 million British people live in Africa.

The UK's leadership in sectors such as financial services, advanced technologies and clean energy ensure it can be a reliable trade and investment partner to African countries. However, despite previous commitments by the UK to become the largest G7 investor in the region and the region's "partner of choice", UK-Africa trade and investment has failed to meet its full potential. It has declined consistently as a percentage of total UK trade since 2012, which harms both UK and African businesses and economies. Brexit, along with other factors, has further created new trade barriers that have affected not just European trade but also trade flows from African countries.

While there is significant opportunity, African countries continue to face development challenges. According to the International Monetary Fund (IMF) and World Bank's Debt Sustainability Analysis, nine African countries are in debt distress, which is defined as being unable to fulfil repayment requirements; meanwhile, 15 were at high risk of debt distress and a further 14 at moderate risk. On average in 2021, central-government debt in African countries sat at 68 per cent of GDP. Moreover, while global poverty has been falling historically and continues to fall overall, African countries account for the majority of the world's global poor. The rate of extreme poverty in sub-Saharan Africa (SSA) was estimated to be 35.4 per cent in 2023.

Conflict continues to undermine democratic progress in certain countries and regions, notably Ethiopia, Somalia, the Democratic Republic of the Congo (DRC) and the Sahel. Coups have prompted notable interventions by the African Union and the Economic Community of West African States (ECOWAS) as well as plans for further development of response frameworks for Regional Economic Communities (RECs). These trends are exacerbated within the context of greater geopolitical shifts, such as Russia's invasion of Ukraine, which has intensified inflation. At present, 600 million people, or 43 per cent of the total population, lack access to electricity in African countries. Despite significant solar potential, African countries are home to only 1 per cent of installed solar photovoltaic (PV) capacity. With the advent of the AfCFTA, infrastructure remains a critical challenge, notably impacting trade between African countries. Poor road, rail and port facilities increase the cost of intra-continental trade, increasing costs by 30 to 40 per cent.

And finally, despite contributing the least to global CO2 emissions, African countries are facing the effects of climate change from water shortages, falling food production and extreme weather events that contribute to both instability and migration. These challenges set clear priorities with which African governments must grapple in order to serve their citizens.

African countries have declared their development aims through the African Union's Agenda 2063. The UK must align with these priorities for the UK and Africa to grow their mutual trade and investment flows, and establish a genuine partnership. Furthermore, it is key for the UK to understand the evolving global environment in which African countries have forged strong economic relationships with new partners, including fellow rising economies. There is a lot at stake regardless of the challenges outlined: in the short to medium term, Africa is forecast to be a key global trading partner for leading economies.

The August 2023 addition of Egypt and Ethiopia to the BRICS group demonstrates expanding international platforms and recognition for African economies, while in September 2023 the African Union was made a permanent member of the G20, where previously it had been just an "invited international organisation". As the world is waking up to the new dynamism of African countries, the UK, too, must not miss its opportunity to deepen its economic ties and become a leading trade and investment partner. Collaboration with the AfCFTA to enhance trade relations and to support investment, infrastructure development, trade facilitation and knowledge-sharing is critical. Facilitating private-sector financing and investment in key industries such as manufacturing, mining, agriculture and tourism must be prioritised. Meanwhile, government initiatives to incentivise, facilitate and support the UK's private-financial-sector activity on the continent could pay huge dividends, accelerate trade and financing flows, and broaden the spread of the financial undertaking across both the private and public sectors.

Simultaneously, despite the strategic importance of African countries to the UK, the relationship has received little consistent, long-term or sustainable planning. There have also been significant shifts in both institutions and norms in recent years. Cuts to international aid have harmed funding and

expertise, damaging long-nurtured economic and political relationships. The UK government's decision in 2021 to merge the Department for International Development (DFID) and the Foreign & Commonwealth Office (FCO) disproportionately hit African countries: where previously they were the largest recipients of the UK's total bilateral official development assistance, this was cut by 66 per cent, from £1.7 billion to £766 million. The UK's international-development priority shifted away from poverty reduction towards climate change, yet without the accompaniment of new financing to achieve this. To move towards a stronger and more fruitful relationship between African countries and the UK, a new understanding of opportunities is critical.

Ultimately, African countries are complex and vast. There is no one-size-fits-all approach. Moreover, challenges faced in African nations are not localised: they have global ramifications. For the UK, an unstable Africa means instability at home. This is not only in terms of security but also shared challenges such as poverty, growth and the climate crisis. It has never been more obvious that Africa is the key to tackling the climate crisis, the biggest global challenge facing governments today. African countries hold vast deposits of the rare-earth minerals needed for green technology and green transition. Ensuring African economies develop sustainably will be key to meeting net-zero targets; moreover, the communities set to be most affected by climate change are in African countries. A well-resourced, stable Africa will create opportunities at home for its people, reducing migratory pressures. If the UK wants to be a leader in the fight against the climate crisis, it needs a strong relationship with Africa.

Positioning the UK as a strong trade and investment partner for Africa brings with it soft power against an increasingly fractious geopolitical background, defined by mounting regional polarisation. Finally, the UK has previously been a powerful advocate for African development in all its facets, with a longstanding commitment to tackling global poverty through the Sustainable Development Goals and overseas-development targets. Promoting strong trade and investment ties provides a win-win pathway to achieve these goals with minimal direct government spend in a constrained fiscal environment.

It is clear that these are fundamental and powerful motivators for the UK to prioritise African countries as key trade and investment partners.

Key Takeaways From the Workshop Process

Participants across all four geographies identified similar concerns, which can be boiled down into nine key findings:

Trade and infrastructure: There is a need to align trade standards, customs processes and infrastructure to address the challenges for African goods entering the UK market. The UK should seize the opportunity to offer increased support for intra-African trade by investing more to tackle trade and cross-border infrastructure, and should do all it can to facilitate trade and realise the AfCFTA's potential.

Mutual benefit: It is crucial to emphasise the establishment of and commitment to a strong domestic operation base in African geographies to help drive the employment, training and development of African people so that they are equipped to work in and grow businesses domestically, as the Chinese model of investment has done.

Market access: African businesses and products continue to struggle to enter the UK market, which is an economic constraint on growth. Access to foreign exchange for UK companies in certain African geographies with limited hard-currency reserves also remains a constraint on growth in identified high-value markets.

Financing gaps: Significant financing gaps and emerging international partners with attractive financing products are a risk for the UK's presence in African countries. However, financing pools from the UK's financial institutions for African geographies (outside the biggest economies) remain limited, with less appetite among UK financial institutions for African risk whether in the syndicated-loan market, insurance or equity investment.

Visas: UK-Africa engagement is severely hindered by complex and costly visa processes, impacting business growth for both Africans and the UK.

Market knowledge: The UK lacks critical market awareness and knowledge from both a data and strategic perspective.

Climate finance: African markets have a strong competitive advantage in carbon trading but are inhibited by a lack of policy, legislation and bilateral trade agreements.

CBAM: The European Carbon Border Adjustment Mechanism (CBAM) is considered a major problem by African countries, with a largely negative perception due to potential economic impacts. African countries have expressed concern that the UK will implement its own CBAMs, negatively affecting Africa, as raised by the Africa Group in July 2023 at the World Trade Organisation (WTO) General Council.

Multi-polar relationships: Part of a mutually beneficial relationship between Africa and the UK is recognising that each country has other key relationships and strategic interests that it must balance; African countries have increasingly felt that there is international pressure to take a particular stance and adopt a particular level of engagement with countries such as China. Strategies aimed at enhancing the UK-Africa relationship should embrace proposals that are not exclusionary in strategically important areas. This is well illustrated by a report by the House of Lords on the UK and Africa.

03

Sectoral Strengths in African Economies

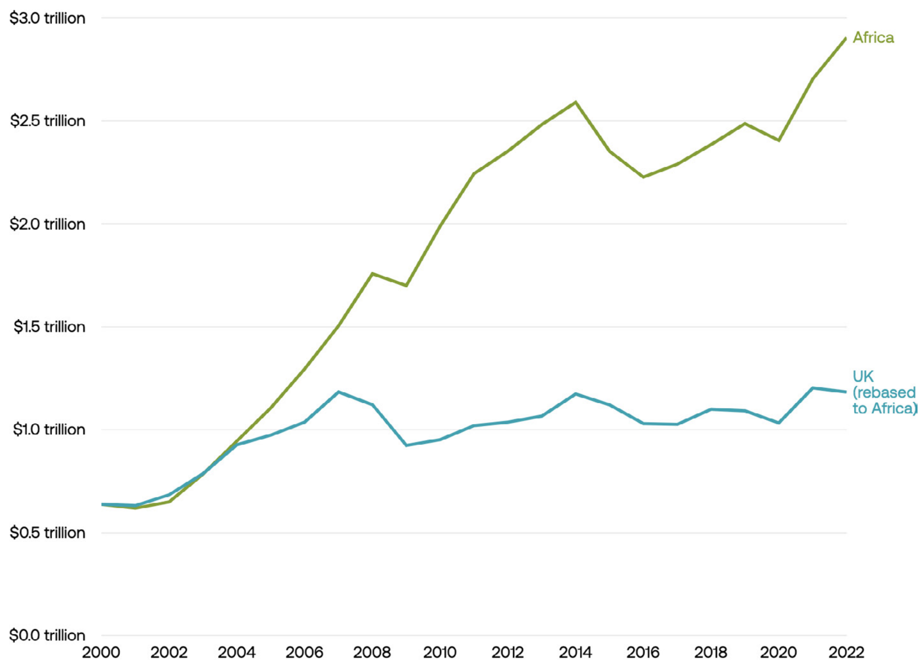
With an average growth rate of 4.4 per cent, African countries have grown significantly in recent years as Figure 1 demonstrates, from $673 billion in 2000 to $2.8 trillion in 2022. Simultaneously, GDP per capita has more than doubled from $1,169 in 2000 to $2,671 in 2022.

Across African countries, around 345 companies have annual revenues of $1 billion or more and produce revenues in excess of $1 trillion collectively. The African private sector is a key driver of strong and sustainable economic development and shared prosperity. The private sector can also be instrumental in the successful delivery of infrastructure and social services through public-private partnerships (PPPs).

Noting opportunities, the following section will review ten sectors: manufacturing; services; information and communication technology (ICT) and the digital economy; energy and climate; creative industries; agriculture and the blue economy; tourism; startups and small, medium and micro enterprises (SMMEs); mining; and financial and legal services.

FIGURE 1

The GDP of African countries grew quickly between 2000 and 2022, despite macro challenges



Source: World Bank

Manufacturing

Increasingly important for industrial strategy, linkages and innovation, the African manufacturing sector is emerging. In terms of manufacturing, value added (percentage of GDP), the average across the region is 10.3 per cent compared with a global average of 16 per cent, while manufactured goods comprise 23 per cent of exports compared with a global average of 70 per cent. It is likely that African countries will steadily grow their economies' share of manufacturing, value added, based on current trends.

Global value chains (GVCs) have been perceived as a means to build competitiveness and gain access to global production; however, a GVC-based strategy requires a particular industrial-policy approach. Since 2008, African economies have lowered tariffs on manufacturing products, parts and components by 25 per cent. However, non-tariff trade costs remain high. Countries with high trade costs struggle to penetrate global value chains, owing to the need for products to move across borders multiple times in the production process. This adds extra costs because of border challenges, which links manufacturing capacity to trade policy. The aim of the AfCFTA is to improve intra-African trade and reduce barriers to trade, especially at borders, and a clear industrial policy is key. Initiatives such as Manufacturing Africa that support African manufacturing capacity are welcome and can be upscaled, in addition to addressing trade and logistics barriers.

A component of manufacturing and industrialisation is, of course, science, technology, and research and development (R&D). At present, African countries comprise just 2 per cent of the world's research output, highlighting a need to scale up and support African research outputs. Just 1.3 per cent of global investment into R&D is spent in African countries, and only 0.1 per cent of patents is held by Africans, highlighting the all-too-familiar challenge of translating research into commercial output. There is a close relationship between increased R&D and increased FDI. Several African countries are beginning to emerge as innovation leaders, such as Kenya, which improved its ranking in the Global Innovation Index by 14 places and is near its goal of 1 per cent GDP expenditure on R&D.

Finally, there is a clear opportunity to realise the links between energy transition, green minerals and manufacturing in African countries. Investment should be aimed at mass-scale manufacturing and processing capacity to localise more production, which is a leading objective of African states to ensure better jobs and incomes in countries with a very large, young working population.

Services

The services sector is growing quickly. At present, trade in services represents an average of 18.4 per cent of GDP in the region, which is higher than the global average of 13.1 per cent. There has been a shift to services over time as urbanisation accelerates. Services contributed 56 per cent to GDP in 2019 and provided 39 per cent of employment. Still, the real productivity level in this sector remained among the lowest in the world that year at $7,200. In comparison, the Latin American average was $17,700.

Skills and education are important drivers of this sector. African literacy rates are about 67 per cent on average, while enrolment in tertiary education is at 15 per cent. While historically the UK, France and the US were major destinations for African students to study, China is becoming increasingly attractive. In 2011, only 20,680 African students chose to study in China but by 2017 that number had reached 74,011, an increase of 257 per cent. Over the same period the number studying in the UK decreased by 24 per cent, with the latest data from 2023 showing 68,230 African students in UK institutions. Due to the lingering effects of Covid-19, it is difficult to assess exactly how many African students are currently enrolled in Chinese universities.

The UK continues to be a provider of choice for African higher education but competition from Chinese institutions, backed by opportunities to live and work in the country, will remain a challenge. African students represent only 2.4 per cent of the nearly 3 million students in higher education registered in the UK in 2021–2022. This is a critical area where the UK can maintain and motivate its leadership in education. Expansion of available funds for scholarships and accommodation may be key.

ICT, Digital Economy and Services

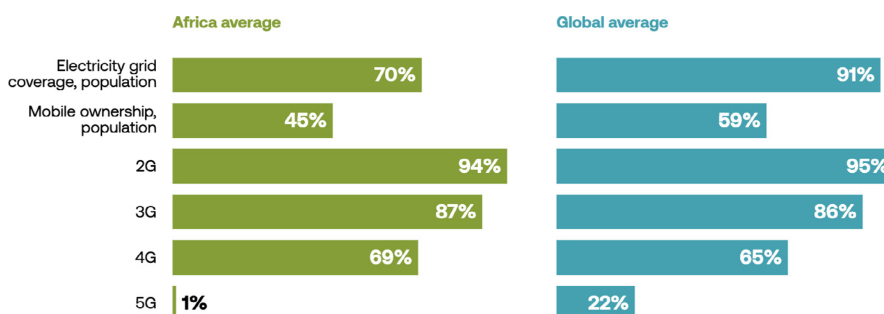
The digital economy of African countries is growing fast, with strong opportunities for growth and innovation emerging in the areas of mobile money, fintech, e-commerce and digital agriculture. Digital trade and digital services powered through mobile and other channels in Africa have the potential to add $180 billion to the whole continent's GDP by 2025 and $712

billion by 2050. This represents an eight-fold growth in GDP contribution, from 1.1 per cent in 2012 to 8.5 per cent in 2050. Mobile money transactions in Africa account for 70 per cent all global mobile money transactions and reached a value of more than $700 billion in 2021. Fintech investment is also on the rise. In 2022, African fintech startups raised more than $2.7 billion in funding. The African technology ecosystem as a whole, including the fintech sector, saw venture-capital funding in equity and debt increase by 8 per cent to approximately $6.5 billion. This stands in contrast to a slowdown across global fintech venture-capital activity.

Statistics show that African countries are demonstrating growth in digital-economy indicators on average, but some gaps remain:

FIGURE 2

The African digital economy is growing, but it lags global indicators in some important areas



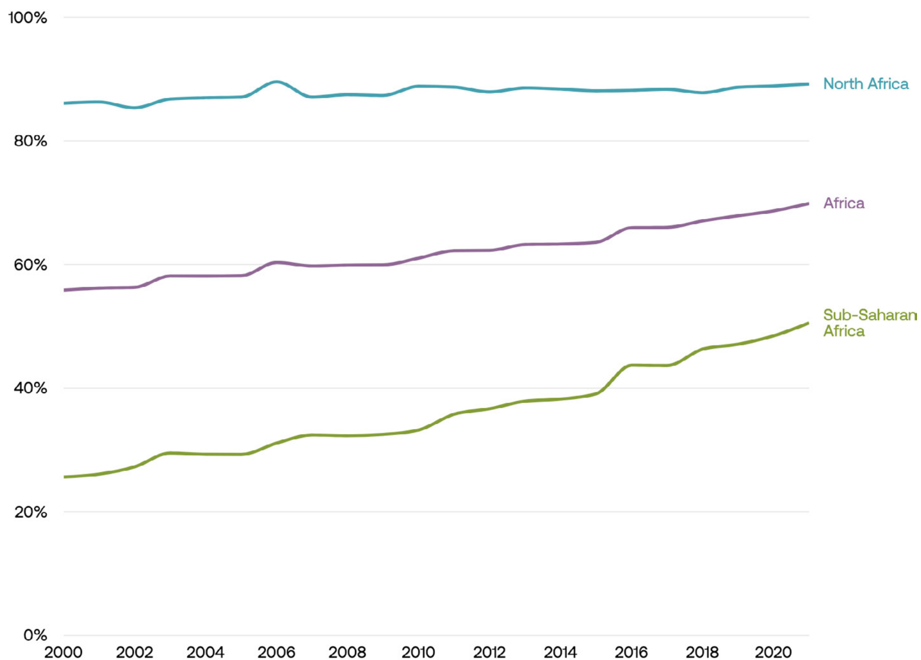
Source: Global System for Mobile Communications Association (GSMA)

Energy and Climate

Around 43 per cent of Africans lack access to electricity, with the majority of those in SSA. There has been significant progress in this area over the past two decades, but there is still some way to go. Analyses show extending access to national grids will significantly improve energy access most cost-effectively and efficiently, except in rural areas where solar mini-grids and standalones can meet energy needs. African countries have the most potential to generate solar energy, yet they make up just 1 per cent of installed global capacity.

FIGURE 3

More Africans have access to electricity today than in 2000, but further progress is needed



Source: World Bank

African countries are responsible for only 2.9 per cent of cumulative global carbon emissions, with 48 countries contributing just 0.55 per cent of total emissions. The International Energy Agency predicts that by 2040, SSA power generation will quadruple to 3 per cent of global CO_2 emissions. Given their negligible contribution to the crisis, Africans are carrying a disproportionate burden.

Some countries are already distinguishing themselves in this area. Clean-energy accounted for 86 per cent of Kenyan electricity generation in 2021 (compared with 40 per cent in the UK in 2022) and the Kenyan government intends to increase that proportion to 100 per cent by 2030. The country has access to hydropower and abundant geothermal energy, among other sources of clean energy. Approximately 70 per cent of the world's reserves of phosphate rock are found in Morocco, making the country a strong potential contributor to the manufacture of phosphatic synthetic fertilisers. In 2020, Morocco also became the first country to sign a hydrogen-production agreement with Germany. Egypt secured green-hydrogen commitments ahead of COP27, which it hosted; the country is planning to supply the shipping industry with green ammonia. Meanwhile, Cameroon has huge potential to generate hydropower that could be used to complement the intermittent solar PVs constituting the baseload generation for central Africa.

Off the back of the Africa Carbon Market Initiative launched at COP27, carbon markets are another opportunity for natural-resource-abundant African countries, but only constitute 2 per cent (or $2 billion) of trading on global carbon markets to date. Of carbon credits issued between 2016 and 2021, only 11 per cent were from Africa. Notably, the Congo basin is the world's second largest carbon sink, absorbing 1.2 billion tons of CO_2 annually. The Africa Capacity Building Initiative aims to produce 300 million carbon credits every year; this could lead to as much as $6 billion in revenue and 30 million additional jobs by 2030, with the aim of ramping up to $120 billion in credits and 110 million jobs by 2050.

Creative Industries

The African creative and cultural industries generate around $4.2 billion in revenue, employ 5 million people and are identified to be growing faster than other sectors both in the region and compared with other geographies. In terms of music sales, SSA saw a 34.7 per cent increase, particularly from South Africa where sales were growing 30 per cent annually, driven by rising global interest in the Amapiano music genre. Spotify reported that Amapiano tracks generated nearly 2 billion streams in 2022, growing 143 per cent since 2021. Despite this, the sector is underfunded. In response, the African Export-Import Bank (Afreximbank) announced a funding package of $1 billion in 2022 to support Africa's creative industries through the Creative Africa Nexus (CANEX) programme, building on a $500 million facility introduced in 2020.

Other sub-sectors include film, gaming, sport and fashion. Nollywood in Nigeria is worth $7.2 billion and employs more than 1 million people. It is the second largest film industry in the world after Bollywood in terms of film production, producing more than 2,000 movies every year. The African gaming sector generated $290 million in 2021. According to a State of the African Games Industry report, nearly half of South Africans played video or mobile games in 2022; other markets, including Ghana, Nigeria, Kenya and Ethiopia, were also ranked. Despite a young, internet-connected population, this sector is often overlooked by international investors.

Elsewhere, estimates show that sport still represents only 0.5 per cent of African GDP, compared with 2 per cent of GDP in other parts of the world. Fashion is another sub-sector that has seen rapid growth and is buoyed by the increasing penetration of e-commerce. Revenue in the fashion market is projected to reach $6.4 billion in 2023, with a compound annual growth rate of 12.13 per cent between 2023 and 2027. However, most of the revenue is captured in China due to a reliance on imports. The UK's own strong domestic creative, cultural and sport sectors may see the benefit of investment in this space.

Agriculture and the Blue Economy

Agriculture makes up, on average, 18.6 per cent of African GDP and 6.62 per cent of exports. In 2021, 52 per cent of employed people in SSA were in the agriculture sector – with around 45 per cent of arable land earmarked for an expansion of sustainable agriculture located in African countries – but the region demonstrated the lowest agriculture productivity-per-worker rates. Cash crops remain dominant in agricultural exports, with certain crops (such as cocoa) making up the majority of global supply. The United Nations Conference on Trade and Development (UNCTAD) has shown that long-term land leases by foreign nations and private companies for use in extractive production for export have accelerated and are contributing to food insecurity and poverty. It is critical that an agricultural investment strategy takes into account domestic priorities for production. Furthermore, Africa's blue resources – its territorial ocean areas and lakes – have, until recently, remained a sidenote to African countries' approach to economic development. These resources represent a significant opportunity for development: of Africa's 55 states only 16 are landlocked, with the other 38 offering a 48,000 kilometre coastline and 13 million square kilometres of combined exclusive economic zones (EEZs). Africa's lacustrine zones cover 240,000 square kilometres. According to the African Union, the blue economy is generating close to $300 billion and 49 million jobs for the continent.

Tourism

In 2019 the African region was the second-fastest-growing tourism economy globally, welcoming more than 70 million visitors and contributing $194 billion to GDP. By July 2020, due to Covid-19, around $55 billion had been lost in travel and tourism revenues across the continent with a recorded loss of 2 million tourism-related jobs, according to the African Union. The IMF predicted a 12 per cent shrinking in real GDP of economies dependent on tourism that year, but the tourism sectors of African countries are recovering quickly post-Covid. The continent is on a gradual path to recovery and attained 88 per cent of 2019 tourism levels in the first quarter of 2023. Airlines are also making progress, with a 69.5 per cent rise in passenger traffic in February 2022 compared with 2021.

Startups and SMMEs

In terms of recipients of FDI, entrepreneurship and venture-capital (VC) funding are of particular interest to African nations and the international community. Global investment flows have declined, with global VC sharply declining by 42 per cent in 2022. Africa is the only region not to see this slowdown, and in fact increased VC debt and equity raised by African tech startups in 2022 to $6.5 billion across 764 deals, a four-and-a-half-fold increase in five years. In aggregate, nearly $11.4 billion in VC debt and equity in African countries was raised across 2021–2022, despite global macro headwinds.

There is evidence of regionalisation of tech ecosystems across the continent, with hubs emerging in East Africa, notably Kenya, in South Africa, and in Lagos, Nigeria. Lagos hosts a key ecosystem for startups; in fact, of the nine unicorns in Africa, eight were based in Nigeria. These include Chipper Cash, Andela, Wave, Opay, Interswitch and Flutterwave. Most were fintechs. In southern Africa, Cape Town in South Africa was the key ecosystem, while in East Africa, Kenya's Nairobi and Rwanda's Kigali were key ecosystems for startups. Rwanda is considered the "Israel of Africa" with the highest investment-to-GDP ratio on the continent.

In 2020, 359 African tech startups received VC funding, while the sector received financial backing six times faster than the global average between 2015 and 2020. There were around 5,200 tech startups in Africa in 2021, up by a factor of three from 2020. However, only a few African tech startups successfully transition into mature companies, with VC investment in Africa suffering from relatively low average returns compared with other regions. Despite early successes, long-term outcomes for African firms remain precarious. Few startups successfully transitioned to Series A – the next round of funding after the seed stage – with most remaining at the pre-seed or seed stage. Moreover, African markets often lacked a deep network of angel investors. More than half of investment between 2014 and 2020 came from VC and private-equity investors, as opposed to 1 per cent from institutional investors and 10 per cent from corporates. This suggests a need for wider business-environment facilitation to support private-sector development.

There are 29 African stock exchanges, with about five major stock exchanges encompassing much of the capital-market space across South Africa, Nigeria, Morocco, Egypt and Kenya. The total market capitalisation was over $2 trillion in 2022. Around 114 African companies, valued at £165 billion, were listed on the London Stock Exchange (LSE) in 2019. A handful of large African companies are listed on the New York Stock Exchange.

Critical Minerals and Mining

African countries collectively hold 30 per cent of the world's mineral reserves but produce only 5.5 per cent of their output, including 40 per cent of the reserves of cobalt, manganese and platinum, which are key components for batteries and hydrogen technology. These mineral reserves are valued at around $406 billion. The UK has a long history of involvement in Africa's mining industry from the colonial era, when the UK participated in the exploitation of Africa's mineral resources. Many UK-based mining companies continue to operate in various African countries. British financial markets such as the LSE and the Alternative Investment Market (AIM) are home to some of the largest mining investors on the African continent. It is estimated that the UK has a mining presence in 37 African countries. The green transition has made new demands on the mining sector that mean that African countries are key contributors to global supply chains for green technologies.

There is growing precedent for African countries to expand exploration but also to localise production and processing to create new, sustainable jobs for a rapidly growing population. In this vein, the UK and South Africa announced the creation of the Partnership on Minerals for Future Clean Energy Technologies. This includes collaboration on clean energies and technologies such as battery storage, fuel-cell tech, energy efficiency and renewable-energy technologies. Similar programmes should be initiated and expanded.

As electric vehicles (EVs) become more mainstream, demand for lithium, nickel and other key minerals could grow by more than 3,000 per cent by 2040. Many of these minerals have significant deposits across African

countries. Other minerals that are essential to the energy transition include cobalt and graphite, with some of the largest deposits of rare-earth elements found on the continent. Guinea produces 20 per cent of the world's bauxite, while South Africa has 70 per cent of the world's platinum reserves. Ghana is currently Africa's largest producer of gold followed by South Africa and Mali, while the DRC, South Africa and Botswana also produce diamonds. The DRC is a major copper and cobalt producer and has large reserves of lithium.

Despite this, many African countries have not explored the full potential of their mineral wealth, where a significant portion of the sector is represented by artisanal mining. Realising the value of this endowment, African countries have begun to organise themselves to develop a more strategic approach to the extraction of and trade in critical minerals. This is an area where UK companies could seek collaboration and partnerships.

The key challenges, as in many sectors in Africa, are the poor infrastructure backbone and border connectivity that make moving minerals to end markets difficult; another difficulty is adding more value to mineral exports through processing and potentially manufacturing, for example, EV batteries. Consequently there is a significant opportunity for expansion in this critical sector that is central to the UK's decarbonisation agenda of replacing fossil-fuel-powered vehicles with EVs. Plus many specialist funds exist in the UK that focus exclusively on African project finance, a competitive advantage that few other countries, if any, can boast.

Financial and Legal Services

The finance sectors of African economies are growing rapidly, particularly in the mobile money and fintech space, despite cash making up 90 per cent of transactions. African fintechs had revenues of about $4 billion to $6 billion in 2020 and penetration rates of between 3 and 5 per cent, in line with international averages. Kenya in particular has been a trailblazer, with one of the highest levels of fintech penetration in the world. It is predicted that the financial-services sector in Africa could grow at 10 per cent per annum by

2025 to reach $230 billion in revenues. The growth in the sector is driven by the rapid acceleration of the African digital economy and urbanisation trends.

By way of a complement to financial services, the legal-services sector is an additional aid to growth. While there are some countries where commonalities exist with the UK's common-law legal system, other countries, notably French-speaking Morocco and Tunisia, have French-style civil-law systems. Alignment in these spaces can promote business growth. To service local and international clients, collaboration with local and international firms is key.

Key Takeaways

The rise of new global competitors in African countries has meant that the UK needs to compete to differentiate itself. The UK should be responsive, adaptive and acknowledge the clearly articulated priorities of African countries to forge productive mutual partnership.

The sectoral opportunity map suggests that six sectors may be ripe for particular growth:

- **Manufacturing:** This is an important policy priority for African countries and is a critical lever to offset the influence of global competitors.
- **Energy:** This sector presents a major opportunity in terms of meeting African energy demand and ensuring a rapid green-energy transition and the exploration of African carbon markets. Kenya's success in its renewable-energy supply rollout remains among the best in class globally.
- **ICT and digital sectors:** Having experienced significant growth, these sectors represent highly attractive business opportunities. Digital trade and digital services, powered through mobile and other channels in Africa, have the potential to add $180 billion to the continent's GDP by 2025 and $712 billion by 2050.

- **Creative industries:** High growth in this sector and the burgeoning penetration of international markets has demonstrated a strong case for further investment and exploration.

- **Critical minerals and mining:** African countries collectively hold 30 per cent of the world's mineral reserves but produce only 5.5 per cent of their output, despite holding 40 per cent of the reserves of cobalt, manganese and platinum, which are key inputs for batteries and hydrogen technology. The UK's expertise in financing African mining may be invaluable in ensuring that African countries can see the increased benefits and value addition of minerals, together with the importance of investment in logistics and cross-border trade to enable products to reach end markets.

- **Financial and legal services:** The massive growth of the financial- and legal-services sectors across the continent, and the promise of additional eight-fold growth by 2050, makes this a major opportunity for the UK, a global leader in the finance and legal sectors.

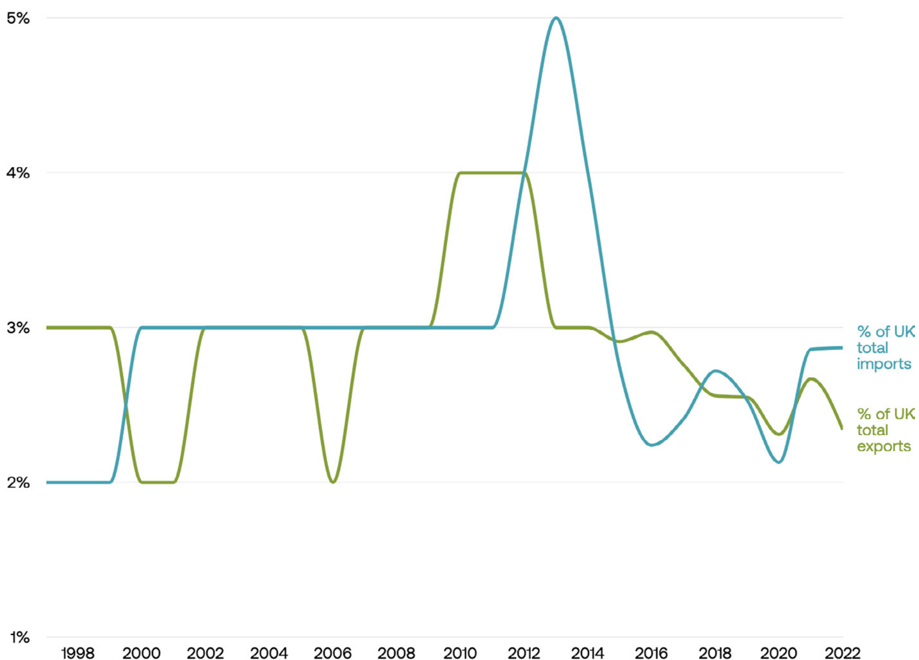
04

Trade

Trade between the UK and Africa peaked in 2012–2013 in terms of absolute annual imports and exports and has since stagnated. As a percentage of total UK trade, as demonstrated in Figure 4, African imports and exports were at nearly 5 per cent in 2012–13. Since then, both imports and exports have declined significantly to between 2 and 3 per cent of total UK trade from 2014 to the present day.

FIGURE 4

UK-Africa trade has declined significantly since 2014



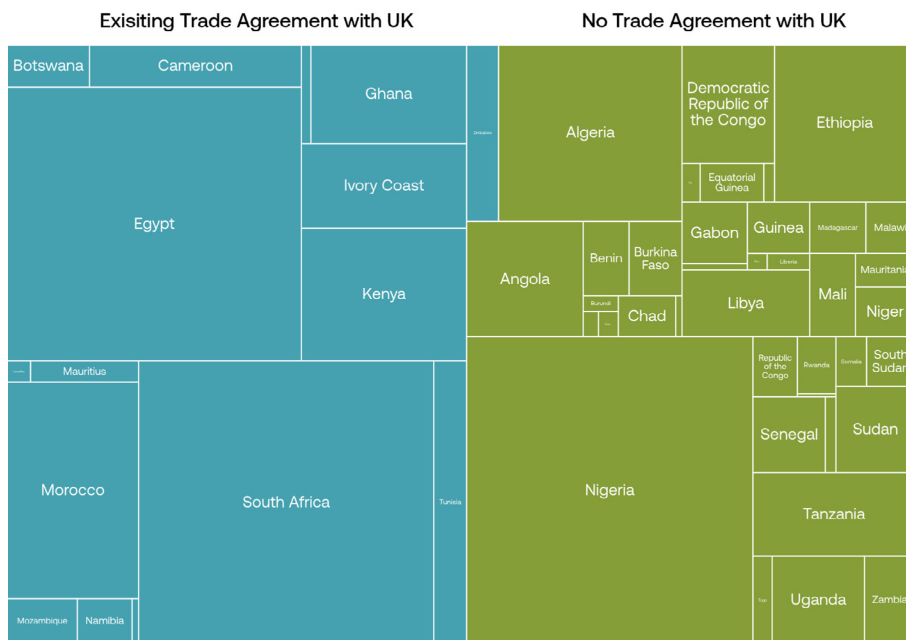
Source: ONS

Furthermore, the UK doesn't have trade deals with 39 African countries – the majority of territories on the continent. These economies contribute a combined $4.5 trillion in economic activity across Africa; the remaining 15 countries that the UK does have trade deals with account for $1.4 trillion. Of the top 20 African economies, the UK has trade deals with just nine, excluding the major economies of Nigeria, Algeria, Ethiopia, Tanzania, Angola and the DRC.

FIGURE 5

The UK has trade deals with some of Africa's major economies – but not others

Box size reflects GDP in USD



The UK is no longer a top-three trading partner of any African country. China is a top-three trading partner with 29 African countries (54 per cent of all the countries in Africa), followed by India at 18 countries (33 per cent) and the United Arab Emirates at 16 countries (30 per cent). The next three largest trading partners are France (19 per cent), South Africa (17 per cent) and the United States (17 per cent).

This is a marked shift from the period between the 1990s and the mid-2000s, when the UK was a major trade partner of SSA, notably in 1995 and 2005 when it was the number-one importer from African countries. Nowadays the UK is no longer placed among the top-three importers or exporters. In 2005, China became a top-three export partner to SSA, and by the second decade of this century was consistently the leading exporter and importer. Through its Belt and Road Initiative, China has invested heavily in trade and investment in Africa. China is the largest bilateral investor and single-country trading partner for African countries, with investment from Beijing often highly visible and overtly political, such as building the African Union headquarters in Addis Ababa.

With investment peaking in 2018, China has also sought to diversify into "softer" sectors, such as skills and education, through its new Global Development Initiative, while simultaneously building out its strength capability through the Global Security Initiative. China's military footprint in, and small-arms exports to, Africa is also growing. Beijing is taking an increasingly global view of its military power, using its armed forces to advance foreign-policy aims. Various actors in the West have felt threatened by growing Chinese influence in Africa and the increase in Chinese military bases. US-China competition has raised the importance of Africa to both countries, while there is discontent with the IMF and World Bank over reforms and continued questions about China's approach to debt restructuring and "debt-trap" diplomacy.

FIGURE 6

China is SSA's top trade partner, while the UK has lost ground

Sub-Saharan Africa's top trade partners, 1990 to 2020

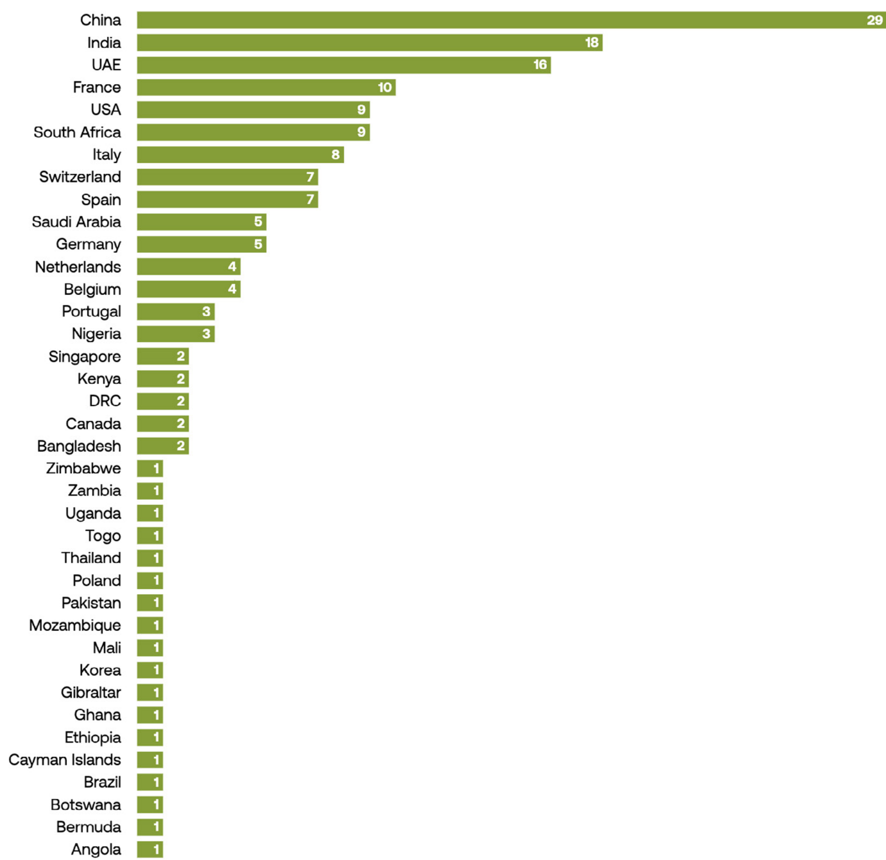
	1990	1995	2000	2005	2010	2015	2020
Imports							
Top 1	US	UK	US	UK	US	China	China
Top 2	France	US	UK	US	China	India	India
Top 3	Germany	France	India	Japan	India	South Africa	South Africa
Exports							
Top 1	South Africa	Germany	South Africa	South Africa	China	China	China
Top 2	France	UK	Germany	Germany	South Africa	South Africa	South Africa
Top 3	UK	US	US	China	US	US	India

Source: World Integrated Trade Solution, World Bank

FIGURE 7

China and other countries are top-three trading partners with many African states – but the UK did not rank in 2021

Number of African states in which the indicated country is a top-three trading partner



Source: World Integrated Trading Solution (2021)

These data suggest that urgent steps must be taken to strengthen UK-Africa ties. The UK was the first non-African country to sign a memorandum of understanding with the AfCFTA secretariat to support the implementation of the free-trade area, but the budgets for this work have been cut back heavily. The AfCFTA has been heralded as an African solution to spurring economic growth regionally and it will encompass a quarter of the world's consumers by 2050. Liberalising trade across the continent will increase trade volumes, create new jobs and increase incomes. If fully implemented, the AfCFTA is projected to lift 30 million people out of extreme poverty (defined as living on less than $1.53 per day) and raise the incomes of 68 million people who live on less than $5.50 per day.

A better-integrated Africa creates opportunities for increased domestic and foreign investment. To date, 54 countries have signed the AfCFTA, and 47 countries have ratified and deposited instruments with the African Union Commission (AUC). The United Nations Economic Commission for Africa (UNECA) estimates that AfCFTA can increase intra-African trade by as much as 52 per cent by 2035, lifting average GDP rates by 2 per cent annually, and employment by between 10 million and 15 million new jobs every year. Similarly, the World Bank found that the AfCFTA could increase incomes by 7 to 10 per cent, or $450 billion, if implemented fully. It could also contribute to wage growth for women and lift 30 million people out of extreme poverty by 2035. The UK should invest strongly in addressing the trade barriers across Africa, especially in terms of cross-border connectivity and trade facilitation.

Key Takeaways

The UK needs to focus on diversifying flows in trade and investment.

Further support for the AfCFTA is critical to ensure growth in both trade and industry, especially in terms of supporting trade facilitation, cross-border connectivity and trade infrastructure, which are the key impediments to the AfCFTA's realisation.

This may entail closing critical gaps on trade policy with 39 countries, as well as extending preferential market access for Africa.

05

Finance, Debt and Investment

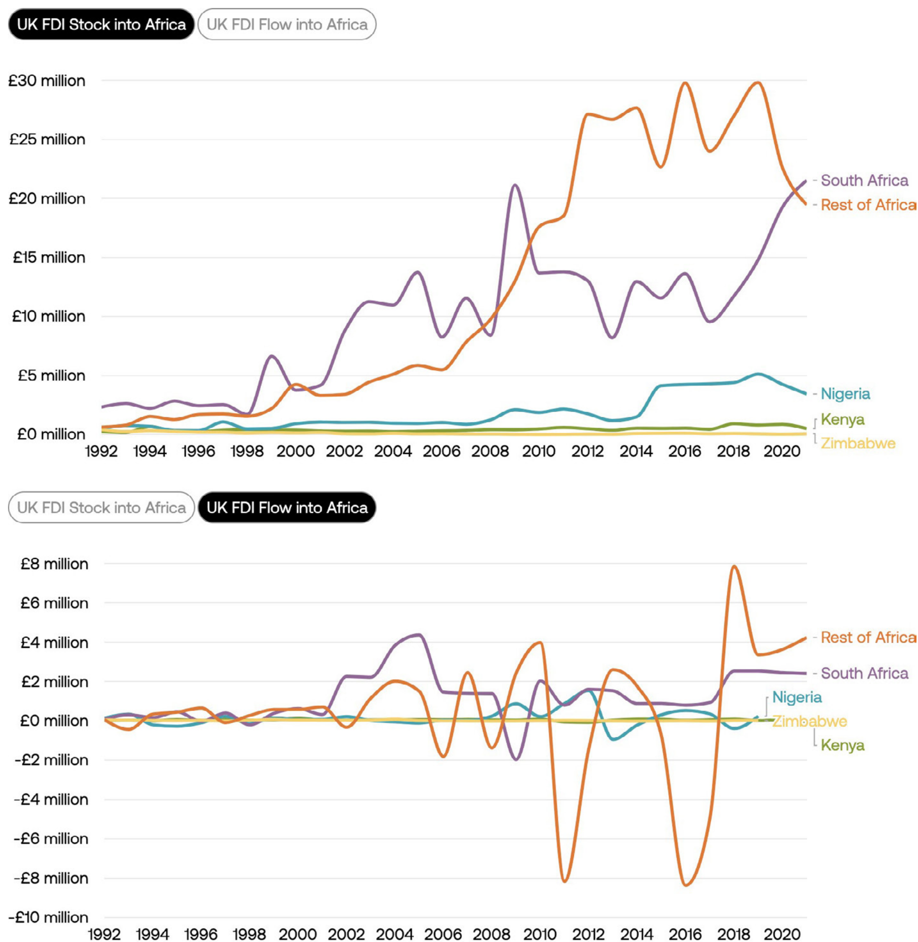
To date, investment into African countries is significantly lower than what is needed. For example, there is a $68 billion to $108 billion annual investment gap in infrastructure in Africa according to the African Development Bank. The reasons are manifold but three stand out. First, there is a lack of the type of conducive business environment needed for private-sector development. Second, many sectors are so nascent that any investment – even in potentially competitive sectors – isn't attractive without preferential public support. The resulting required industrial policy can be even stronger when coordinated and supplemented by international partners such as the UK. Lastly, many of the potentially attractive projects – fully private and PPPs – aren't developed enough for private investors, who shun the risky development costs. In addition, many African governments do not have the required regulation or sufficient capacity to negotiate and agree PPPs. Supporting the development of investable projects, and building capacity and the institutions that facilitate and implement them, is therefore essential to spur private investment on the African continent.

The UK should be interested in funding further economic development in African countries for a multitude of reasons. African countries offer sizeable business opportunities for UK businesses and sustainable job creation in Africa that also reduces migratory pressures. De-risking investment may kickstart initial interest in investment opportunities.

As Figure 8 describes, UK FDI stock has been rising steadily, with a notable take-off around 2006. Simultaneously, investment in South Africa, which until 2009 received the lion's share of total UK FDI in Africa, dropped and has stagnated since. On the other hand, investment flows to the rest of Africa (excluding Nigeria, Kenya, South Africa and Zimbabwe) have increased significantly, suggesting that there are new countries emerging as economic areas of interest. This is not yet reflected in the UK's strategic approach to African countries, as it often cleaves to Anglophone nations.

FIGURE 8

More countries in Africa are emerging as areas of economic interest

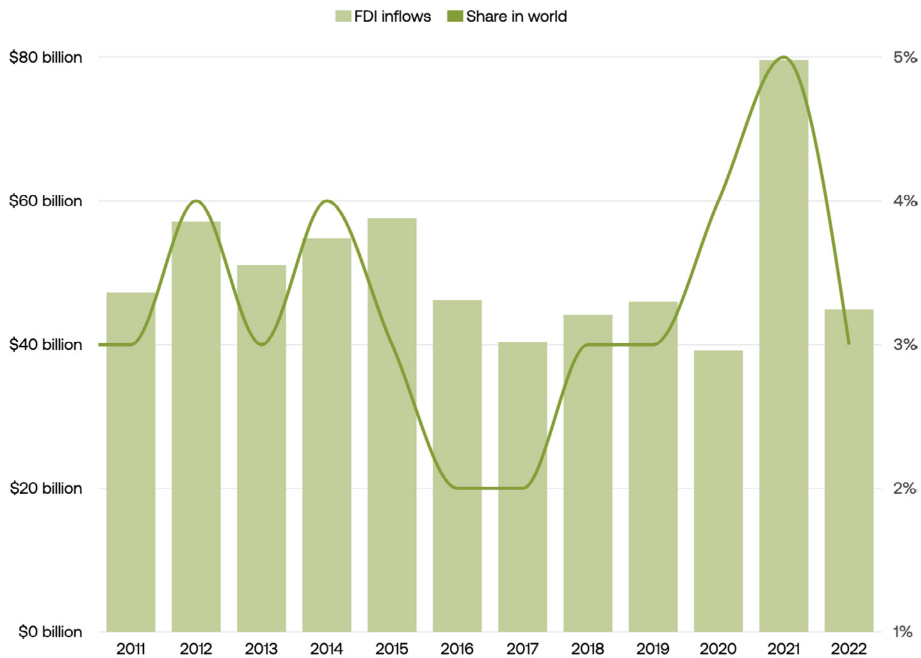


Source: ONS

Figure 9 demonstrates that FDI flows, on the other hand, have been volatile, spiking in 2018–2019, likely in response to the pledge by the UK government that the UK become African countries' largest investor.

FIGURE 9

Global FDI inflows to Africa are rising



Source: The United Nations Conference on Trade and Development (UNCTAD) Foreign Direct Investment/ Multinational Enterprises database.

Note: "World" excludes Caribbean financial centres.

The business environment is therefore not only a focus for commercial growth but also for FDI attractiveness. In the now-discontinued World Bank's Doing Business ranking, the only African country to place in the top 20 was Mauritius, at 13th, in 2019. Other African countries included Rwanda (38th), Kenya (56th), South Africa (84th), Ghana (118th) and Nigeria (131st). Overall, Africa ranked as a poorly performing region for ease of doing business, due to long lead times for infrastructure permits, among other challenges; however, year on year, improvements were significant from the 2005 founding of the Doing Business index to its conclusion in 2020. According

to a report by the House of Lords, corruption, tax avoidance and evasion, as well as illicit financial flows, are a key concern for African countries, impacting sources of finance for development. The report advised that the UK government should ensure that UK businesses operate to the highest possible standards when doing business in the region, including compliance with the Bribery Act 2010, the Guiding Principles on Business and Human Rights, and the Extractive Industries Transparency Initiative global standard on oil, gas and mineral resources.

In 2021, debt-to-GDP ratios across African countries averaged around 67 per cent. Another form of financing that is critical for private-sector development, state capacity and international development is debt relief. The UK can be a major influence for debt relief as a means of development in African countries. Some countries are paying a significant share of their government revenue on debt servicing, such as Somalia, which paid 98.9 per cent of government revenue in debt payments in 2020. Moreover, while the narrative has often focused on Chinese debt, African governments owe three times more debt to Western banks, asset managers and oil traders than to China, and at higher interest rates: African external debt is 35 per cent to Western private lenders and only 12 per cent to China. There is scope for the UK to address this.

A final, more unusual but not insignificant form of financing comes from remittances. Total recorded remittance flows to Africa in 2019 were reported to be $48 billion; remittances from the UK to SSA were estimated to be £39 billion in 2019, which is larger than UK FDI and official development assistance (ODA) flows. Nigeria was the largest recipient at about half of total remittances. Other major recipients, controlling for population, were South Sudan, Lesotho and The Gambia. However, remittances are often subject to high transfer fees that can be reduced to support these beneficial flows.

Key Takeaways

Overall, UK-Africa investment-growth trends should continue as they are; however, it may be important to diversify investment flows in line with African priorities for sustainability. To facilitate investments into new sectors, de-risking instruments may be key.

Bank financing for African economies more broadly remains a narrow focus pool for the UK's financial sector. Facilitating and incentivising the broadening of this pool will be key to establishing stability in fund flows.

06

Recommendations

The UK must navigate a rapidly evolving global competitive landscape and revise its current approach to African countries to accommodate African priorities, particularly in terms of development goals. This entails a comprehensive review of trade and investment policy, enabling infrastructure and market structures at all levels. Close partnership with African counterparts is critical to ensuring success.

As a first step the UK should be transparent in aligning the development of a strategy for trade and investment relationships with the African countries that share those aims. This is an important step in developing a relationship of equals for the UK and African countries, aligning priorities where there is common, mutually beneficial ground.

Any strategy aimed at the countries and regions of the African continent will have multiple pathways:

- trade and investment
- aid and development
- political, diplomatic and security

The UK government should have a nuanced strategy that recognises relevant pathways by country, region and sector. The pathways to trade and investment, aid and development, and in the political, diplomatic and security spheres need not exclude each other.

1. Revise Trade Policy to Support Africa-UK Trade Led by a Joint UK-Africa Trade Commission

1.1 THE UK HAS A NEED FOR A JOINT UK-AFRICA TRADE COMMISSION

There has been a high cost to the UK's revolving door of Africa ministers. A UK-Africa trade commission would ensure that there is a dedicated institution with a strategy towards trade and investment growth led by both the UK and African representatives. This could be a critical initiative for reinvigorating the UK-Africa relationship and to begin to move that relationship away from either a transactional one or one that is typically defined by the donor-recipient dynamic commonly seen in the past or with other international partners. A new UK-Africa relationship should be one of equality, playing to each participant's strengths and benefiting all parties.

However, it is key that a UK-Africa trade commission be highly focused but have standing membership from the UK and African countries where the UK has a footprint, with visiting officials from additional African countries based on new engagement or evolving diplomatic and economic relations. This could supplement capacity issues as well as continuity issues, as it will draw on local expertise with both long- and short-term representation. Within the establishing terms of reference, a very clear and targeted scope and approach should be prioritised. Such a commission should draw on public- and private-sector expertise with rotating membership for fresh thinking. The following focus areas, as identified throughout the workshop process, are recommended: manufacturing; critical minerals and mining; climate and energy; ICT and digital; creative sectors; and financial and legal services. These should be supported by a targeted investment, trade, finance and technology strategy, underpinned by principles for value addition, export orientation and employment absorptivity.

1.2 TRADE AGREEMENTS

The UK needs to increase the number of trade agreements with key African countries as a priority, and the UK government should focus efforts on establishing what countries and sectors are strategic. The lack of a trade agreement with Nigeria, Africa's largest economy, is a glaring omission,

as is a lack of provision for facilitating the flow of services and data – in particular with respect to the creative industries. The UK should be prepared to use the WTO enabling clause while avoiding most-favoured-nation commitments, especially with developing countries where there is no material adverse effect at home.

It is also prudent to review both the thrust of the current UK-Africa trade agreements and ongoing negotiations. It could prove essential to pursue an Africa-UK generalised scheme of preferences agreement and to review ongoing and new agreements with Africa in order to include duty-free, quota-free access to the UK market for African middle-income countries, and explore the potential to harness UK trade policy to further the aims of the AfCFTA.

1.3 STREAMLINE CUSTOMS

The UK government needs to improve and simplify access to the post-Brexit UK market for African countries by streamlining and properly communicating UK market standards, customs procedures and processes. Linking UK trade systems digitally to African counterparts could also considerably reduce trade costs for African countries.

1.4 FOREIGN-EXCHANGE SUPPORT

Exposure to foreign-exchange volatility and lack of liquidity in local currencies adversely impacts African trade and investment, one of the primary reasons intra-African trade is about 15 per cent of total imports and exports (as opposed to global comparators at 60 to 70 per cent). As many payments are cleared in overseas banks, including by those based in the UK, British financial institutions should support efforts for central banks in Africa to access and build their hard-currency reserves to reduce transaction costs and trade costs. Moreover, few African currencies are currently supported in local-currency funding by UK Export Finance (UKEF). The government should aim to widen the African currency offering.

2. Expand Support for the Establishment of the AfCFTA

Several key approaches to support AfCFTA implementation may prove impactful, including:

- **Supporting trade growth** by adopting an integrated AfCFTA and aid-for-trade strategy for development and private-sector support, underpinned by a project-preparation facility for trade-related infrastructure and trade corridor development, as well as trade facilitation and digitalisation of trade processes.

- **Expanding market access** by exploring the potential for an African Growth and Opportunity Act (AGOA)-style market-access agreement in the UK parliament and simplifying access to the UK market for Africa.

- **Building capacity** by creating an expanded AfCFTA support programme to build the resources available to the AfCFTA Secretariat and Delivery Unit, as well as funding to support capacity-development for governments. In particular, support should be given for the development of appropriate and workable African standards for goods and services, and intellectual-property rights.

- **Financing** through increased investment to reverse funding cuts and readjust the Private Infrastructure Development Group (PIDG) and British International Investment (BII) portfolios, supporting trade-related and urban infrastructure development.

3. Harness UK Finance for Africa's Trade and Development Agenda

By leveraging key institutions in the UK such as BII and PIDG in partnership with the international-development finance community, the UK can drive progressive investment policies in African countries for a positive impact on debt, tax, trade, investment and illicit financial flows while utilising partnerships. Methods of doing this could include:

- **De-risking investment** through BII and PIDG, and leveraging blended finance and guarantees to mobilise and crowd in UK private-sector investment, to grow the African private sector as well as UK joint ventures in African countries. This should help create further stimulus to the development of value-chain and trade finance for trade with African countries.

- **Encouraging patient, long-term capital** to support the growth of local economies and businesses. Capital and financial institutions should employ a long-term outlook, which may entail mobilising pension funds.

- **Prioritising additionality** in private-sector investment. Investment should be strategic, and it is key that there is oversight to ensure that investments improve local forwards and backwards linkages to spur more investment, set targets for the creation of meaningful jobs, support increased value added and contribute to domestic tax-revenue growth.

- **Instilling transparency and good governance** for investments to clearly demonstrate their additionality and impact.

- **Providing insurance** to support private-sector investors in Africa, who have retreated from high risk in these markets in recent years. Greater support is needed for insurance provision across Africa, particularly in respect of credit- and political-risk products that could incentivise UK banks to lend more. This can be a low-cost, high-impact intervention, especially where portfolio risk is managed.

- **Providing an enabling environment for investment in and money transfers to African markets by exploring diaspora bonds** and other potential approaches to payment corridors for remittances. Diaspora bonds are retail bonds that have found success in Israel as a source of both finance and expertise for issuer governments. They are a rarely tapped source of capital for projects in Africa or for African governments, given their retail status and the restrictive regulatory environment for such products. Meanwhile, fees for money transfers for remittance payments to family and friends remain stubbornly high, due to a lack of interoperability between systems and poor digital infrastructure. In

addition, these barriers to entry limit competition, while co-operation among market participants is discouraged. A more supportive regulatory environment in securities and competition law is necessary.

- **Incentivising the banking sector** to play an active role in lending provision to African corporates and SMEs with tax incentives and impact credits, spreading risk and obligation away from UK government overseas spending to the private sector, creating a deeper and more sustainable financing pool. Impact credits could be extended to global and domestic government initiatives and should also be aligned to new environmental, social and governance (ESG) standards. This system could be extended to financial-sector firms outside banking, including audit and accounting, where there has been a notable shift away from taking on new audit clients in developing markets, even where a UK domicile has been incorporated (forcing issuers to redomicile to their home market). In particular, the UK could explore the use of tax incentives explicitly linked to the UN Sustainable Development Goals.

- **Repositioning London's stock exchanges** as the preferred place for African issuers to list. The LSE has been adversely impacted by negative market sentiment to the UK in recent years. This has led to other stock markets becoming viable alternatives for companies seeking a listing, resulting in fewer market debuts in London. While the LSE has historically been successful in attracting leading African issuers to list on the exchange, it is no longer automatically seen as the first choice for African countries. New listing initiatives such as the proposed changes to the UK listing rules, while potentially a positive for UK issuers, have actually made the listing regime more punitive for Africa-domiciled issuers. These proposals, if implemented, will now have to meet the requirements of the single standard of listing but will be ineligible for many of the benefits of reaching this standard, such as FTSE-index inclusion where offshore domicile eligibility is restricted to just a handful of deemed "low-tax" jurisdictions, none of which are on the African continent. While redomiciling to the UK can theoretically resolve this indexation issue in part, with a growing reluctance from many of the large, recognised audit firms to take on new audit clients with operations predominantly in developing markets, irrespective of a UK domicile, the reality is that this is

often not a practical alternative for African issuers seeking an LSE listing; some highly regulated sectors – resources and financial, for example – may not even be viable for an issuer candidate. A UK government incentivisation initiative to the LSE, its FTSE Russell subsidiary and the Financial Conduct Authority could reap significant dividends for the UK stock market, which could position itself as the de facto home for African and developing-market issuers seeking an international listing, providing stimulus and enhancing its existing international profile further. The LSE could also support and partner with African stock exchanges, with creative options for local-currency financing.

- **Expanding and developing partnerships** with multilateral and bilateral development-finance institutions (DFIs).

4. Focus on Digital Services and Digitalisation of Trade Through Free-Trade Agreements, Including Economy Agreements With Certain African Countries

The UK should aim to facilitate open digital markets, enhance freer trade flows (especially in services), help promote development in Africa and establish data and intellectual-property protections. Similar to the UK-Singapore Digital Services Agreement, the UK should fast-track data-adequacy agreements with priority countries to enable cross-border flows of data without compromising data-protection standards. The UK could provide technical assistance aimed at developing and implementing effective data protection and digital operational resilience.

The UK can address concerns that African governments have about data protection, cyber security, cloud computing and data sovereignty. Supporting the development of digital infrastructure in African countries, such as broadband networks, secure data centres and cloud-computing services can facilitate free data flows. The aim is for the UK to successfully develop bilateral and multilateral digital-trade agreements with African countries that reduce barriers to trade and provide clear regulatory frameworks for digital trade.

5. Offer UK Support for Africa's Energy Needs and Objectives

As demonstrated, African countries have a clear need not just for energy transition, but more urgently for energy addition and transformation. The UK, through its powerful international platform, particularly at the UN, can support the call for additional financing for renewable energy. It may be wise to use the Kenyan green-energy model as a roadmap for what the continent's green transition and power mix could become.

6. Support the Establishment of African Carbon Markets, Offering Climate Finance for Decarbonisation to Accelerate Green Transition

The UK can play a role in helping African countries to establish their carbon markets by supporting the development of policy, legislation and bilateral trade agreements. Further, the creation of a new tier of investment vehicles in Africa's green production and manufacturing sectors with the City of London will further support the decarbonisation agenda.

It is critical for the UK to be aware of the challenges posed by CBAM. Investment in low-carbon technology and a wider green transition in African countries won't happen automatically through CBAM. Active investment, technology and policy support is needed to accompany low-carbon transition in developing countries.

7. Reform the Complex, Expensive UK Visa Process to Enable Closer Business Ties Between the UK and African Countries

Home Office data have shown that African applicants are twice as likely to be refused a UK visa than applicants from anywhere else in the world, and the process is more lengthy, bureaucratic and expensive than obtaining visas to other countries. This restricts services, trade and access to the UK

market for Africa. It is recommended that the visa process be reformed by reducing fees and extending validity periods, with an aim to prioritise transparency. Student visas should be the most accessible and affordable, while new agreements should be made to waive visa requirements for diplomatic-passport holders, which is the case in most countries.

8. Expand the UK-Africa Investment Forum to Include Additional Countries and Focus on Diversification

The UK's current investment interests in Africa remain heavily focused on unprocessed minerals and mining. It is critical that the focus should shift to local beneficiation and increased job provision in African markets. The UK should engage on topics of interest such as reducing the cost of remittances and debt-relief strategies. This will also support greater market knowledge and expand the existing platform of the UK-Africa Investment Forum from just 25 countries to all African countries, demonstrating a real commitment to giving serious consideration to the UK's relationships with Francophone Africa. It is important that reforms meet both UK and African governments' priorities, with clear mutual benefits that are aligned to both the long term and political cycles. Such support could include investment commitments by UK companies, guaranteed market offtake or preferential market access for certain goods, as well as training grants for private investments.

9. Leverage UK Soft Power Through International Institutions, the Education Sector and Diplomatic Capacity

Government should support the work of institutions such as the British Council and the BBC World Service through sufficient resourcing.

While historical framings of international students in the British education sector have centred around creating a network of soft power, cross-cultural exchange must be welcomed in order to grow business ties bilaterally

and explore the key role that education institutions play in the innovation ecosystem. This may be possible through partnerships between UK and African universities. This could ensure more effective networks between countries to facilitate trade and investment.

Furthermore, local diplomatic support is strong but could be further resourced. Given the increasing importance of the region on geopolitical, economic and security grounds, there are gaps that need correcting in British representation in some countries, with a lack of embassies, staff and envoys. Fortunately, putting this in place can build on already established development programmes on the ground. The UK can be bold and propositional in strengthening diplomatic and trade ties; this can also include tapping into existing UK-Africa diaspora networks.

07

Annex

Workshop Inputs and Themes

Four online and in-person workshops took place during June and July 2023 in East Africa, southern Africa, West Africa and the UK, with more than 70 participants. In addition, the subject-matter experts provided insights on the Sahel region.

EAST AFRICA

The East Africa workshop was held in person in Nairobi on 21 June 2023. It was attended by 22 participants predominantly from Kenya in the agriculture, manufacturing, trade and ICT sectors.

The key findings from the workshop were:

Market-Access Challenges

- Respondents reported that stringent and expensive sustainability and certification requirements in the UK cut into margins, while UK importers simultaneously insist on lower prices, which respondents did not identify in other European markets as frequently. Participants felt that further support or leeway with prices in the UK are needed to meet international standards, or that those standards need to be lowered.

- In East Africa, the export of vegetables, fruit and flowers is the biggest success story in terms of trade. Issues in the UK market post-Brexit have been a serious challenge for Kenyan exporters to the UK, in terms of getting products inspected quickly by customs as well as logistics concerns for perishable products without suitable facilities in place. The Border Target Operating Model, which will classify products into low, medium and high risk, will facilitate product inspection, and this has been welcomed by respondents. This should be expedited and clearly communicated to Kenyan exporters.

- Sanitary and phytosanitary (SPS) measures were flagged as a major concern for exporters in the agriculture sector. The SPS inspection processes are considered a significant challenge to market entry as the requirements remain unclear and delays can be long.

- East African exporters felt that there are notable barriers to market access, making it difficult for businesses to enter the UK market.

- Foreign exchange and the volatility of African currencies mean that it is difficult to export reliably, affecting operations and business stability.

How the UK and African Partners Should Approach a UK-Africa Policy

- Respondents emphasised that the UK takes a one-size-fits-all approach to Africa and focused on the extractive sectors. There is a desire to encourage more investment into manufacturing and other industries that create growth and value addition.

- Further, there are issues around the narrative (and the UK's understanding) of the East African market. A strong partnership would need to be built based on mutual understanding to give a truer picture of the opportunities and investments that already exist.

- The UK should do more to simplify market access for Kenyan exporters and work on clarifying and communicating more clearly the standards requirements, and customs procedures that will enable trade costs to be reduced.

- Respondents believed that there are challenges in translating UK-Africa policies into actionable implementation and that, rather than an uncoordinated, stop-start approach, there may be a need for a dedicated continental trade commission to remove trade barriers and drive the growth of UK-Africa trade and investment.

- It was emphasised that regional trade blocs like the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), as well as the potential of the wider AfCFTA market, should be better utilised to support finance and investment.

Finance and Investment

- Respondents identified several financial-market concerns such as challenges around scalability of products, forex risk and overreliance on DFIs, as well as the need to broaden sources of capital and incentivise commercial banks to expand their offerings.

- De-risking investment: respondents identified the need for support on insurance for development projects.

- Respondents expressed a desire for closer engagement between the LSE and its African counterparts to facilitate more access to business finance.

The Digital and Creative Economy

- It was pointed out by respondents that Kenya is connecting to all its neighbouring countries via cross-border, subsea, high-speed fibre cables that terminate in the UK and southern Europe. As a result, Kenya is a regional hub of data centres. The lack of harmonisation of legislation and digital policy (particularly in data protection, digital currencies, cross-border payments, trade systems and, for example, definitions of gig work across regional blocs) is a major blockage to investment. There were also concerns around data sovereignty. Respondents noted that taxation on the digital economy could often be unpredictable, including levies on digital currencies and digital-service taxes, as well as M-Pesa taxes in particular.

- There was an emphasis on a desire to create a “Silicon Savannah” in Kenya through increased UK investment.

Opportunities for Climate Finance

- Kenya has an emerging carbon market with significant carbon offsets, following commitments to develop legislation and institutional frameworks to support carbon trading. According to respondents, Kenya currently generates more than 80 per cent of its energy from renewable sources.

SOUTHERN AFRICA

The southern Africa workshop was held online on 17 July 2023 and was attended by 16 participants from across southern Africa, including South Africa, Malawi and Mozambique, representing the minerals, technology, energy, finance and agricultural sectors.

The key findings from the workshop were:

Economic Constraints

- Respondents reported that infrastructure deficits in roads, rail, shipping, logistics and air remain major impediments to trade growth and regional connectivity. Furthermore, the required skills, capital and enabling policy environment are lacking. Respondents suggested that PPP opportunities can help to unlock trade and infrastructure development on the continent. They further recommended that large supermarkets can help with more B2B linkages in agribusiness, where market access can be a challenge for African exporters.

- There was a view that there is a need to develop robust and competitive markets and increased value addition in African countries first, before building stepping stones to competitive global trade. Increased value addition in terms of mineral exports was seen as a priority. Domestic university linkages were determined to be a key mechanism and an area with comparative advantage.

- Ensuring greater domestic value addition in production was a key concern for respondents, who highlighted specific sectors such as edible oils, macadamia, peanut butter and beef.

- Respondents observed that there is an issue of framing and lack of coordination on the part of the UK. They believe that a comprehensive approach to UK-Africa trade by the UK is required but that it currently does not exist. They advised that the UK needs to reconsider its approach in the context of geopolitical competition.

Market-Access Issues

- Respondents highlighted the need to invest in improving regional connectivity in Southern Africa to improve access to international markets, especially in terms of improved border connectivity and trade facilitation (for countries such as Zambia).

- Respondents pointed out that, at the firm level, Southern African businesses needs more straightforward access to the UK market, highlighting challenges in the high cost of travel and freight to the UK, as well as complex customs requirements and expensive UK visa processes that inhibit both trade and tourism.

- The UK can help to grow trade volumes by supporting specific agriculture sectors such as edible oils and beef through aggregation, digitalisation of production processes and simpler trade regimes.

Financing

- While climate finance was considered to be important to African countries, many felt that economic development is an equal priority, and that this requirement for balanced priorities and domestic agenda-setting needs to be reflected in future UK-Africa engagement. It was noted that, for most of the world to develop, the key sectors are steel, fertilisers and cement, and there should not be a hypocritical stance by the West in not allowing African countries to develop these sectors themselves.

- Respondents emphasised a need for partnership and collaboration between African countries and the UK, with a preference for "African solutions to African problems". Respondents saw the UK as a partner with significant capital.

- Respondents indicated that there are difficulties in raising funding domestically. While South Africa's financial markets, in particular, are sophisticated, there remain challenges for businesses to raise capital, including by tapping into pension funds and the availability of early-tage financing.

- It was mentioned that certain Southern African countries found that global anti-money-laundering policy and legislation are proving a challenge for investment flows into African countries which require more support, particularly where banks have pulled out of countries as a result.

WEST AFRICA

The West Africa workshop was held online on 17 July 2023. It was attended by 19 participants from across West Africa, including Nigeria, Ghana, Senegal, Côte d'Ivoire, Guinea, Liberia, Sierra Leone and Togo in the trade, technology, energy, finance and agricultural sectors.

The key outcomes from this workshop were:

Trade and Economy Challenges

- Respondents identified that the lack of enabling trade and cross-border infrastructure makes competitive trading difficult and costly. Preferential tariff regimes could help level the playing field, as a reduction in tariffs would be best for competitive trading and global value chains.

- Respondents further indicated that, while some support with standards has been forthcoming, expensive standards-certification processes and requirements remain a key barrier to trade. There is a need for clearer end-to-end processes to reduce the incidence of rejected goods.

- As in previous workshops, respondents stressed that visa challenges are a major barrier, particularly in terms of complexity, lack of transparency and cost of application at all levels, from tourism to diplomats, professionals and so on. Moreover, it is seen as "dire" to continue to put students from Anglophone African countries through an English-language test as part of the student-visa application process.

- There is a language barrier between the UK and West Africa. Partnerships between UK-government-affiliated organisations and local players would be beneficial to increase on-the-ground knowledge and avoid some of the mistakes made by European DFIs.

- Respondents called for further UK support for the AfCFTA in terms of logistics and infrastructure to unlock trade, particularly as many businesses want to export but do not yet know how to, plus stringent certifications for export are too expensive for small businesses to meet. This includes capacity building, mentorship and knowledge-sharing platforms that connect more experienced businesses with smaller SMEs and newcomers.

- It was mentioned by respondents that more direct trading and shipping routes are required, instead of transhipments that raise trade costs and make African exports less competitive.

Financing Challenges

- Respondents identified delayed, expensive financing, and volatile and limited access to foreign exchange, as inhibitors to trade. It was highlighted that most global trade is undertaken on open accounts which leads to cashflow challenges; therefore an arrangement that facilitates quick processing of payments to sellers would be helpful.

- They pointed out a need for domestic capture of value addition to increase African export revenues.

- There is a need for further, greater access to investment, particularly in terms of early-stage finance for SMEs, as well as support for scaling up businesses. Respondents noted that the commercial banking market has become more illiquid and that innovative financial products are needed to mitigate investment risk. It was recommended that the UK could look at introducing guarantee funds and first-loss credit facilities to mitigate this. Large pots of financing should also be broken into smaller tickets. The focus should be more on enabling and unlocking private capital from private equity and venture capital. UK equity finance should look more strategically at enabling infrastructure and securitisation of supply chains. It was supposed that the challenge is not so much the availability of finance but creating the right risk profile to crowd in FDI. It was mentioned that there isn’t an accurate risk perception, specifically that African countries are perceived to be more risky than they really are.

- As in previous workshops, forex risk was identified, with the forex-availability challenges in Nigeria highlighted as a significant area of concern. There is a lack of flexibility in central banks for cross-border transfers. Hedging products and aligned pricing could be a solution, both between governments and from the private sector.

- Respondents also pointed out a lack of market understanding. They urged the UK to understand the competitive landscape of potential Africa partners.

- With regards to climate finance, respondents indicated that incentivisation for green transition was challenging in West Africa. Development finance should be introduced at the early stage of green projects. A specific agreement on EVs with some waiver on duties would be a positive step. It was felt that the cost of loans is too high in West Africa. Respondents suggested a working group on EVs would also be beneficial. There is local movement on decarbonising bikes, but greater financing is needed for scale.

UNITED KINGDOM

The UK workshop was held in-person in London on 19 July, with 16 participants from a diverse array of sectors across industry, financing and energy.

The key findings from the workshop were:

New Challenges in a Multilateral World

- There was a sense that the UK is losing presence on the African continent, as new players such as China, the United Arab Emirates, Saudi Arabia, Kuwait and others are investing. That said, the UK is still the second largest investor by some measure, but by FDI stock rather than flows.

- China's rising presence was identified by respondents to be due to a unique advantage, in that it offers cheap and affordable financing with a long-term view of up to 20 years or more. It also appears to facilitate

skills transfer and integration into communities – as opposed to the UK approach, which views African countries as an asset, which was characterised by expecting a return after three to five years and having an exit plan.

- In terms of finance, it was identified that there needs to be further engagement for UKEF and there was a suggestion that UK pension funds should invest in Africa and other emerging markets, as is the case with Australia and other countries.

- It was acknowledged that, on the African side, policy and legislation challenges remain an inhibitor to investment, with work required on the recognition of intellectual-property rights and the creation of a GDPR-like framework.

A Lack of Market Knowledge

- There was a call for the UK to take Africa seriously, and it was noted that the UK is not investing in Africa as much as it could, given the market size and the opportunity presented by AfCFTA. The UK needs to invest in manufacturing in African countries and in building out global value chains.

- Furthermore, it was outlined that UK embassy capacity in African countries could be expanded, as could the number and capacity of trade and investment envoys.

- Respondents identified that, for African countries, among the UK's strengths was the LSE and the fact that the UK remains one of the largest donors to AfCFTA with the investment of more than £35 million.

- The UK's weaknesses were identified to be a lack of industrial policy, with existing policy perceived to be reactive and therefore not equipped to respond soon enough to challenges and opportunities.

- Respondents, as was the case in the Africa workshops, identified visa issues as a barrier to UK-Africa trade, and recommended a fundamental reform of the visa system to facilitate business.

- Respondents indicated the need for more data-keeping by government, due to a lack of available data on the identity of the top UK investors in African countries.

Climate Finance

- The UK is a major hub for carbon trading and African countries are attractive markets for carbon credits. However, it was noted that there is a need for individual bilateral agreements to facilitate carbon trade in order to translate directly into investible projects. It was further noted that African countries need to adopt a compliance process for carbon credit. It was recommended by respondents that this should be done on a company rather than a project basis in order to have a greater impact on the local economy, as companies employ people and pay taxes. It was noted that, in terms of carbon trading, Kenya is doing well, but Uganda and Tanzania are proving difficult markets in which to scale carbon business due to nascency of policy.

- The UK requires a long-term strategy on green energy to facilitate responsive green financing. Also needed is a country-by-country approach to African countries to use global climate-compliance frameworks to build out industry, with relevant standards, policy advocacy and support. The EU's CBAM policy was mentioned as a reference.

Trade and Market Access

- UK-Africa trade was perceived to be imbalanced. A need was identified to promote African products through buyers' fairs and to UK wholesalers and supermarkets to encourage them to buy African export goods, as well as attracting additional investment through "patient capital", or longer investment cycles.

- Respondents urged for trade routes between the UK and African countries to be expanded, and new direct routes to be established, rather than relying on European ports. This should be done strategically, considering certain priority countries and sectors. Digital trade regulations and systems connecting Africa with the UK should also be created and enhanced as the UK embarks on its Single Trade Window upgrades.

- It was acknowledged that market volatility following Brexit has dented African trade. As a result, there is a need for faster and more efficient customs processes and risk management in the UK, clear UK trade and product standards, phytosanitary regulations and traceability in supply chains, and solutions for other issues where African countries are not being prioritised.

- The UK should invest in building up the African market by increasing its investment and opening up opportunities in the AfCFTA to ensure stronger cross-border connectivity, better trade facilitation and improved logistics.

- There was a suggestion that a dedicated UK-Africa trade commission could dynamically solve some of these problems, as well as issues around doing business, border connectivity and support for the AfCFTA.

Creative Services, Soft Power and Education

- Respondents noted that the UK remains a world leader in education and that should be leveraged as a means to attract top African talent (many of whom go to other markets, such as Canada). It was also mentioned that English remains a powerful business language and a means of soft power.

- The Overseas Development Institute (ODI) programme could also be better leveraged, it was argued.

- It was noted that African countries have vibrant and profitable creative industries, particularly in the music, TV and fashion sectors, which are heavily dominated by young people and women. It was pointed out that large multinational corporations such as Sony and Universal are big players in this space.

- Technology and digital services are an additional area of major opportunity, but challenges around data regulations and sovereignty need to be solved.

08

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