Four years after it began, the global financial crisis continues to wreak havoc on property values and personal savings in Europe and America, but its effects have not blunted the growing enthusiasm of investors for the so-called “emerging markets” of sub-Saharan Africa. In 2010, the McKinsey Global Institute and the Africa-based offices of McKinsey and Company issued an influential account of Africa's investment potential. Titled “Lions on the Move: The Progress and Potential of African Economies,” the report called attention to the continuing risks of conflict and poor governance across the continent, yet its main thrust was decidedly positive—even glowing. McKinsey's analysis trumpeted Africa's “commercial vibrancy,” “hard-earned progress and promise,” and “growth acceleration,” much as previous investment literature had described the Asian “tigers.”

At the time, it was tempting to dismiss the report as a marketing move by an international consulting company aiming to attract corporate clients whose patience with the more “reliable” European and American markets was exhausted. But that would have been a mistake. The report proved to be part of a trend of favorable and often hyperbolic accounts in the popular media and among reputable international financial institutions (like the World Bank) proclaiming the rise of Africa. This trend continues today.

For example, the Economist Intelligence Unit, maintaining the characterization of African economies as “lions,” issued a January 2012 study that sought to “capture the changing appetite for investing in Africa's frontier and emerging markets” by surveying investors on their perceptions of the continent's potential. A majority of investors agreed that markets in Africa offer the world's best prospects for investment growth, and many expected to increase their exposure in the next three to five years. The World Bank for its part speaks often of Africa's “potential.” Last year its officials joined heads of private equity firms and investment bankers to discuss the region's prospects at a conference called “Roaring Giant: Africa's Economic Ascent,” held at Columbia University.

Although reliance on the trope of the mighty lion to frame Africa's recent growth may be rather trite, its ubiquity in the policy-making literature as well as the popular press suggests that fundamental economic and political shifts have occurred across the continent. But what is the nature of these shifts? Where are they taking place? Who are the beneficiaries? And will African lions replace the Asian tigers? In fact, the complex answers to these questions offer as much cause for caution as for optimism. The continent is definitely changing, but its growth and investment are spatially and socioeconomically uneven, politically contentious, and economically risky.

**NEW FOUNDATIONS**

As a result of conditions imposed on aid by bilateral donors and multilateral financial institutions, countries across Africa in the past two decades have liberalized trade, balanced budgets, established investment centers, created stock markets, and passed privatization laws. Benin, Ghana, Mozambique, Tanzania, and Uganda as well as many other countries have sold the majority of their state-owned enterprises to foreign and do-
mestic investors and sought investment to finance new projects in sectors ranging from mining to consumer goods. Moreover, political changes have accompanied many of these economic shifts. Many governments in Africa now practice some form of democratic electoral politics: Their citizens enjoy basic political rights and civil liberties that were denied to them just 20 years ago.

These policy alterations have provided the foundations for increased investor interest in the continent. Whereas aid from donors such as the United States, the United Kingdom, France, Germany, and the Scandinavian countries has financed large infrastructure projects such as hydroelectric dams and major road corridors, or provided budget support to cash-strapped African governments for education and health care, private investment has surpassed overseas development assistance (ODA) in importance. Despite the recent economic downturn, inflows of foreign direct investment (FDI) were $60 billion in 2009 compared with bilateral and multilateral ODA amounting to $47 billion. In 2010, total FDI and ODA received by African countries were about equal, at $50 billion respectively.

The characteristics of the private investors with an interest in Africa are, in some respects, all too familiar, but in other respects are strikingly different from what they were two decades ago. Large transnational oil corporations such as BP and Chevron continue to be important players in resource-rich countries such as Nigeria and Angola. French companies such as Total, with a long history in Africa, manage oil concessions in Algeria, Gabon, Libya, and Madagascar. Unilever, a British firm whose presence in Africa dates back to the nineteenth century, continues to do business in at least 20 African countries, selling a range of items including food, health, hygiene, and beauty products.

But investment in Africa now extends far beyond those companies with roots in the colonial period. International financial institutions have investment arms that help finance large infrastructural projects along with private capital. They also back private sector–driven investments in retail businesses, office blocks, telecommunications infrastructure, cement factories, and even Coca-Cola bottling plants.

Moreover, most donor countries—including not only the United States, the UK, and France, but also Brazil, China, and Saudi Arabia—have created or reorganized development finance institutions with mandates to pursue investments in emerging markets such as in Africa. For example, the Overseas Private Investment Corporation, the development finance arm of the US government established more than 40 years ago, provides financing and support to American companies interested in investing in Africa, among other regions of the world. It also supports projects that will spur private sector growth, such as the expansion of electricity or the provision of loans for small businesses.

**ENTER PRIVATE EQUITY**

Particularly noticeable within the new wave of investors are private equity firms, which have rapidly expanded their presence in Africa over the past five years. These firms typically rely on the capital of institutional investors, such as pension funds and insurance companies, or wealthy individuals to engage in high-risk, high-return investments. The private equity industry grew quickly in the United States during the 1970s, when changes to financial regulations made possible the use of pension funds for investment purposes. The availability of large amounts of capital from these and other funds (such as insurance) facilitated the expansion of the private equity industry into industrialized countries in Europe. But only recently have they extended to the African continent.

Today about 170 global fund managers based in the United States, the UK, France, Saudi Arabia, and China include Africa in their portfolios. Intra-African investment is growing too, with private equity firms registered in Mauritius, Kenya, Ghana, Nigeria, and especially South Africa pursuing opportunities on the rest of the continent. Partial financing of such funds may come from multilateral or bilateral donors, but increasingly much of it comes from institutional investors and individuals of high net worth.

Investments by private equity firms include the provision of venture capital for new projects in consumer goods, health care, agribusiness, corporate and city branding campaigns, and ecotourism. Private equity firms also engage in leveraged buyouts of existing, usually highly indebted firms in a variety of sectors, from an oil marketing business in Nigeria to a media company in South Africa.

Alternatively, private equity firms rely on so-called “mezzanine capital,” a hybrid funding tool that combines debt and equity financing to acquire whole or partial stakes in existing businesses. The use of mezzanine capital in the region has mostly
been confined to South Africa, but it is beginning to expand to other countries such as Botswana and Nigeria. Thus, the complex financing arrangements that are common within developed countries have now spread to Africa.

**Commodities and Consumers**

As in the past, much capital is allocated to mining and processing Africa's mineral resources. With growing demand for commodities in Brazil, India, and China, private investors are aggressively pursuing the creation or expansion of oil production in Ghana, Angola, Nigeria, and Algeria. Copper mining in Zambia and the Democratic Republic of Congo, gold and platinum mining in Zimbabwe, and natural gas exploration and coal mining in Mozambique are in great demand, although in the latter case, production has barely begun.

Governments have promoted industrial development initiatives, export processing zones, and development corridors in the hope of luring additional investors to the continent. However, with the exception of the Maputo Corridor, which links Johannesburg and its environs to the port of Maputo in Mozambique, few of these proposed nodes of manufacturing, commercial operations, tourism, and transport have actually taken off.

Global demand for food and biofuels has risen—as have prices—and thus investments in agriculture are popular. This has environmental and conservation groups worried. A number of them, including the international nongovernmental organization Oxfam and an independent think tank, the Oakland Institute, view with alarm the growing investor interest in agriculture across Africa. Decrying corporate “land grabs,” the Oakland Institute has issued a series of reports detailing the allocation of hundreds of thousands of hectares of land to Swedish, American, British, Dutch, Indian, Chinese, Saudi Arabian, and other companies for biofuels, rice, corn, sugar, soybeans, and forestry products in Tanzania, Ethiopia, Mozambique, and Mali.

The reports raise concerns about the environmental impact of commercial farming and the threats to domestic food production posed by growing agribusiness and biofuel production. Should these threats materialize, they would increase existing food deficits in rural areas and exacerbate the environmental damage already caused by the mining, processing, and transport of extractive resources.

As long as demand and prices remain high, interest in minerals and agricultural goods will continue, but investors seem to be most excited about the potential long-term opportunities in financial services, consumer goods, and the provision of urban housing for Africa’s rising middle class.

Virtually ignored since Europeans colonized Africa in the nineteenth century, the African consumer suddenly became visible to investors when sales of cell phones began to explode across the continent a decade ago. Whereas in 1998 just 4 million Africans had access to cell phones, by 2011 there were nearly 500 million subscribers. Two South African cellular telecommunications companies, MTN and Vodacom, both less than 20 years old, dominate the market in countries such as Ghana, Tanzania, the Democratic Republic of Congo, Nigeria, and Uganda. According to their own reports, MTN and Vodacom have more than 116 million and 40 million subscribers respectively across the continent. Foreign telecommunications companies from India, France, and the UK are also prominent players.

The prospect of enormous profits to be made from tapping into the pent-up demand of a hitherto ignored group of mostly urban consumers drives a host of other initiatives. Some are eminently practical and long overdue, in areas such as housing, retail banking services, processed food, ready-to-wear clothing, and cosmetics. Others are grandiose and utopian, such as dozens of city building projects that are either imagined, under way, or completed in countries such as Zambia, Kenya, Ghana, Tunisia, Angola, and South Africa.

With half of the population of Africa projected to inhabit cities by mid-century, it makes sense to anticipate where they are going to live and work, and what they are going to do. According to McKinsey, the continent already has 52 cities with over 1 million people, and housing conditions, even for the affluent in many of these cities, are poor.

**Elite Retreat**

What makes current urban development efforts in Africa so unusual is their financing, their character, and their scale. They are often not publicly conceived or publicly financed, nor are they piecemeal, ad hoc additions to existing

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*Political and economic liberalization has stimulated investments in consumer goods, financial services, and agriculture.*
cities. Rather, with the blessing of the state, the private sector often spearheads the planning, financing, management, marketing, and construction not only of self-contained, heavily guarded, walled residential areas, but also of much larger mixed-use developments that include housing, office complexes, recreation facilities, schools, and health clinics.

In Newsweek in March 2011, the Nigerian author and playwright Wole Soyinka alluded to the grandiose vision behind one of these planned private cities, when he ironically described Eko Atlantic in Nigeria as “rising like Aphrodite from the foam of the Atlantic.” Eko Atlantic will be built on nine square kilometers of land being reclaimed from the Atlantic off the coast of Lagos. Although the Lagos state government has played an important role in the project by granting the developer a 78-year lease, syndicated loans and private equity funds from domestic and international banks together with private investors are financing it. A subsidiary of the Chagoury Group, a conglomerate with 30 years of experience in Nigeria, is planning and developing it.

Referred to by some commentators as a “sister city” to Lagos, its imagined tree-lined streets and uninterrupted ocean views could not be more different from the sprawling, overcrowded areas of Nigeria’s largest city. In contrast to Lagos, Eko Atlantic aspires to be a green-conscious “world class city” that attracts the top transnational corporations and runs 24 hours a day, with the workday shifting seamlessly to entertainment at night. Moreover, it promises to be free of traffic jams, which is nothing short of miraculous considering that idling in stalled traffic is practically a way of life in densely populated Lagos. Although construction has barely begun, the use of innovative reclamation techniques to halt coastal erosion and flooding has already garnered the development team a Clinton Global Initiative Commitment Certificate.

**PRIVATE SPACES**

Eko Atlantic has attracted an inordinate amount of media hype, but other city building projects such as Waterfall City in South Africa, King City in Ghana, Tatu City in Kenya, Levy Junction in Zambia, and several city building and urban revitalization projects in Angola are either under way or have been completed. Almost all of these are located near existing and highly congested urban areas, but several such as Waterfall City and Tatu City are self-contained, stand-alone projects. They are not grafted onto existing urban agglomerations and they are not extensions of public space. They are (or will be) privately run cities in private spaces.

Smaller gated communities and shopping malls are also cropping up across the continent from Tunisia to South Africa. And like the investors in Eko Atlantic, the private sector has mostly led the way on these initiatives, requiring no more or less from their governmental partners than the settlement of land disputes and the security of their property rights. Once these issues are resolved, private companies engage in everything from master planning to the sale of plots for residential and commercial uses.

Who will live in these idyllic private cities, shop at upscale malls, watch movies, or play mini-golf? And what impact might the retreat of the elite behind walls and security gates have on efforts to consolidate democracy and build civil society in African countries? What new roles will the state be asked to perform, or to relinquish, if private city managers replace elected or appointed public servants?

Since many of these projects are not yet completed, there are no definitive responses to questions about who will benefit from the changing urban and consumer landscape in Africa and what the projects’ relationship to the public sphere will be. But partial answers can be provided by extrapolating from gated communities and new urban spaces that already exist.

Certainly foreign businesspeople and diplomats can be expected to move to cleaner and safer neighborhoods, as they have already done in places such as Luanda Sul in Angola and New Cairo in Egypt. In addition, increasing remittances sent back to the continent from the diaspora may help finance the relocation of relatives or the purchase of second homes in mixed-use developments, as is occurring in Cape Verde, Ghana, and Kenya. Africa received about $40 billion in remittances in 2009; remittances to Ghana alone accounted for 10 percent of the total. Research by the World Bank indicates that remittances not only support families but also contribute to the

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_In many cases, only a small elite enjoys the benefits from increased investment and global integration._

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expansion of local real estate markets and land purchases.

**Middle Class Values**

Investor interest is betting on the acquisitiveness of Africa's growing “middle class” to ramp up purchases of homes, cars, clothes, and other consumer goods. One difficulty with predicting the behavior of this class, however, is that it is hard to determine who is in it and how big it is. If we use an absolute dollar figure for ascertaining who is in the middle class, setting its lower and upper bounds will determine its size. (Fortunately, in his calculation of the global middle class, Martin Ravallion at the World Bank has adopted some plausible upper and lower bounds, and I follow his lead here.)

If we take income of at least two dollars a day per capita as a measure of the middle class, as several studies do, then about 200 million people in sub-Saharan Africa may be considered middle class. This figure represents an increase of about 3 percent since 1990 in the proportion of the population that is middle class. Yet perceptions about the purchasing power of this group may be highly misplaced. An average income of two dollars a day barely covers absolute necessities, even taking into account that a dollar generally goes further in developing countries.

If we raise the bar to, say, $13 a day per capita, which was the poverty line in the United States (based on poverty guidelines for a family of four) in 2005, then the number of people in sub-Saharan Africa who fit this category shrinks considerably to about 10 million people, or less than 2 percent of the total population. Allowing that the data on income levels from Africa are out of date for many countries, likely do not include informally earned income, and exclude wealthier North African countries such as Tunisia and Egypt, these figures on potential membership of the middle class are still depressingly low. They suggest that only a tiny minority of the African population has access to discretionary income of any consequence.

Whether we use a very conservative or a very generous estimate of per capita income, or a relative measure based on income levels in individual countries, or a calculation based on a household's material goods to determine who is in the middle class, the point is that the numbers of Africans who are in a position to purchase big ticket items such as new cars or homes is still very small. They are also concentrated in resource-rich countries like Nigeria, Sudan, and Angola, or in relatively well-developed countries such as South Africa and Mauritius.

Many Africans may now own cell phones, but most are excluded from access to adequate shelter, a steady supply of electricity and water, and a decent income. Informal settlements abound while basic services are both insufficient and expensive. Where a middle class can be detected, the data are insufficient to determine whether its members' livelihoods are stable enough or their savings adequate to support the purchase of homes. With the exception of South Africa, most countries in sub-Saharan Africa do not have mortgage markets. Nonetheless, most countries have small elites that will take advantage of opportunities to enjoy the security and the calm of planned charter cities or walled residential areas.

**Zones of Luxury**

The emergence of these zones of luxury may pose political problems, however. On a continent where the ideals of political pluralism and democracy are still struggling for consolidation, the spatial segregation and the visibility of wealth that characterize gated communities and private urban enclaves can play havoc with efforts to build meaningful democratic participation and to promote social justice.

The distinction between the haves and the have-nots embodied in a security gate or a “Mediterranean-style” villa has the potential to exacerbate perceptions of income inequality and unequal property access among the poor and the vulnerable. In frustration, they may join other sectors of society to bring down authoritarian regimes, as they have done in Tunisia and Egypt. Alternatively, under more democratic conditions, marginalized residents may resort to protests or more violent forms of political action to demand subsidies for food and gasoline or steady supplies of water and electricity, as they have done in Nigeria, Uganda, and Mozambique.

Opposing trends of democratic inclusion and residential exclusion, growing prosperity and persistent insecurity therefore pose considerable dilemmas for national governments. Some, like that of Zimbabwe, are creating a kind of electoral authoritarianism where balloting takes place but political rights, civil liberties, and economic opportunities remain highly restricted and repressed.

Other countries that enjoy varying levels of democracy, such as Senegal, South Africa, Zambia,
Mozambique, and Tanzania, have adopted a hybrid approach. They are blending the developmentalism of yesterday with the entrepreneurialism of today. To offer skills development and jobs to the unemployed, they are resuscitating public works projects or providing training workshops. They are also promising to build affordable housing and subsidize basic necessities such as electricity and water in urban areas, or fertilizer and seeds in rural areas.

At the same time, these are entrepreneurial states. They are relying on sovereign wealth funds, the pension funds of government employees, or development finance institutions to invest alongside the private sector in shopping malls, office complexes, banks, and tourist resorts. States are thus engaging in a delicate balancing act between catering to economically vulnerable or historically disadvantaged sectors of the population (who may also be voters) and partnering with capital in potentially lucrative projects.

**Reward and risk**

Without a doubt, African countries today have very different economic and political orientations from what they had just 20 years ago. Political and economic liberalization, generously supported by donors and international financial institutions, has stimulated pockets of investments in extractive sectors as well as consumer goods, financial services, and agriculture.

But these developments also come with risks. Much of Africa’s wealth is unevenly spread across the continent and tends to be concentrated in resource-rich countries with large populations. In many cases, only a small elite enjoys the benefits from increased investment and global integration. A sizeable percentage of Africa’s population continues to live below the poverty line, and many young people on the continent may never have access to a decent income.

Moreover, although many analysts observe that African economies have weathered the recent ups and downs of the global market fairly well, the private equity firms that are now spreading across the continent encounter even fewer regulations than they faced in developed countries. Clients of such firms as well as the countries and communities in which they invest are likely to be even less shielded from the effects of poor decision-making or unscrupulous behavior than those who did business with the now defunct investment houses Lehman Brothers or Bear Stearns.

Little is known about how private equity firms operate, who invests in them, or how they build their portfolios. As the global financial crisis emphatically demonstrated, these funds’ returns are quite volatile in an economic downturn even when investors are fully informed of the risks. For all of these reasons, Africa’s lions are unlikely to rival Asia’s tigers anytime soon.