

## Global Innovation Outlook

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## All eyes on Africa



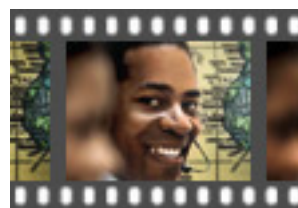
### Strategic partnerships, soaring investment and the talents of the Cheetah Generation are powering Africa's growth

#### Africa Rising: the future is now

Africa. Once considered a sleepy, economic backwater, the continent is now suddenly on top of business minds across the globe. China conducts \$55 billion a year in trade within Africa. Entrepreneurial success stories grace the pages of Western glossy magazines. And the economies of dozens of African nations are growing at healthy rates. Just as Southeast Asia and Eastern Europe did before, Africa is sowing the seeds for economic growth in the coming years. "The economic outlook for Africa is the best in 30 years, growth is averaging 5.5 to 5.8% across the continent, and there is ample reason for optimism. The African continent has emphatically and irreversibly turned the corner," said Thabo Mbeki, president of South Africa, earlier this year.

To help foster economic development, IBM held Global Innovation Outlook (GIO) conferences throughout 2007, bringing together leaders in business, government and academia. These global "Deep Dive" sessions took place in Nairobi, Kenya; Dakar, Senegal; Paris, France; Lisbon, Portugal; Atlanta, United States; Beijing, China; and Cape Town, South Africa. All in all, an effort to innovate, collaboratively, to accelerate the positive change that has already begun.

While the continent still needs to improve infrastructure, attract investment, and build a stronger skills base, the basic building blocks for continued growth are there. Following are some insights from the GIO discussions.



[Play video](#) (1:10 min.)

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## One continent, many markets

There is a tendency to treat Africa as one big homogenous market, but it is actually 54 countries, with 930 million people who speak an estimated 2,000<sup>1</sup> different languages. There are countless demographics within the continent. But a severe lack of data to help understand those varied markets makes it difficult for businesses to grow beyond the borders of a village, town, or country. It also makes it difficult to get funds that are invested in well-known, more developed areas, to reach the undeveloped areas that need it the most.

### At a glance

- *At US\$ 39 billion, a new record, Foreign Direct Investment (FDI) in Africa in 2006 recorded a 25% increase over...2005.<sup>2</sup> This is due, in large part, to increased activity in extractive industries such as petroleum, mining and cocoa.*
- *Two-thirds of FDI flows in 2006 were to developed countries (up from three-fifths in 2005). FDI flows into developing countries in 2006 rose by a more modest, but significant, 10%.<sup>3</sup>*
- *However, this investment is slow to trickle down: 300 million African people live on less than \$1 a day.<sup>4</sup>*



[Play video](#) (1:48 min.)

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## Microfinance: small loans, big impact

The biggest industries in Africa are focused on extracting its abundant natural resources: oil, gas, and minerals. Yet the majority of the jobs are created in small businesses that rely on microfinance: loans of less than \$1,000 that help individuals start and grow businesses in their community.

### At a glance

- *By offering access to credit and savings to those living in the informal economy [off-the-books income without access to traditional banking], microfinance can help businesses grow, and eventually enter into the mainstream economy.*
- *The International Labor Organization estimates that three-fourths of all Africans work in the informal sector, comprising over 40% of the continent's overall gross domestic product (GDP).<sup>5</sup>*
- *Recipients of microfinance have been remarkably reliable borrowers—default rates of less than 10% are common. Typical interest rates of 10% to 15% promise a reasonable return for lenders.<sup>6</sup>*



[Play video](#) (1:11 min.)

[Read this video transcript on page 6](#)

## The mobile imperative

The infrastructure to support landline phones is non-existent in most of rural Africa, but that hasn't stopped the continent from becoming a hotbed for innovation in wireless applications. Per capita access to wireless handsets is among the highest in the world in many parts of Africa, even in remote villages that lack electricity. In fact, unprecedented mobile applications—like Safaricom's mobile money transfer service in Kenya—are already up and running, leapfrogging so-called developed and other emerging markets.

### At a glance

- 27 million landline telephones in Africa<sup>7</sup>
- 33 million Internet users in Africa
- 100+ million mobile phone subscribers in Africa (2006)<sup>8</sup>



[Play video](#) (1:16 min.)

[Read this video transcript on page 6](#)

## The Cheetah Generation

Any discussion of Africa's future must include the "Cheetah Generation," the fast-moving, forward-thinking young men and women eager to accelerate Africa's development. Africa has the world's highest growth rate in high school attendance, many of whom expect to go to university. But higher education institutions are woefully unprepared to handle the demands of today's global economy, and few offer the real-world training that graduates need to find meaningful work. There is a critical role the private sector can play.

### At a glance

*"One thing that's quite striking is the degree to which virtually every university is innovating to cope with their problems...to try to make the most of the conditions they confront," says Professor Akilagpa Sawyerr, secretary general of the Association of African Universities in Accra, Ghana.<sup>10</sup> Innovations include private sector partnerships to build facilities; bridge programs to prepare students; recruitment of African professionals living abroad to volunteer and teach for a few weeks when they come home on vacation.*



[Play video](#) (1:12 min.)

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## Makocha Minds



It takes a Herculean effort to graduate from university, but it is even harder to find ways to put that degree to work. At one GIO session, 15 university students from across Africa pleaded for help in making school curricula more relevant to the job market; creating internships for real-world experience; and fostering students through mentoring programs.

IBM responded quickly by creating “Makocha Minds” (makocha is the Swahili word for “teacher”), a mentoring program that matches IBM senior technical leaders from disciplines ranging from computational biology to software development, with African university students.

In Africa, technical education tends to be theoretical. IBM mentors help students close the gap to understanding the more practical, on-the-ground uses of technology, such as the software-as-a-service model.

“My mentee is using his skills to make it easier to collect medical data in the field in Kenya,” explains David Singer, IBM Distinguished Engineer, “I want to help him build on that knowledge as much as I can.”

Initial communications will be by phone, IM and e-mail. The response to the call to help was overwhelming: 225 responded for 100 mentor spots.

## Footnotes

<sup>1</sup> Languages of the World by National Virtual Translation Center, <http://www.nvtc.gov/lotw/months/november/worldlanguages.htm> , 2007

<sup>2,3</sup> “FDI Flows in 2006: The Global and Regional Pictures,” <http://www.unctad.org/TEMPLATES/Page.asp?intlItemID=4160&lang=1>

<sup>4</sup> <http://earthtrends.wri.org/updates/node/6>, December 22, 2005

<sup>5,6</sup> “Africa: Microfinance Supports Sustainable Growth—a Private Sector Model of Development,” Africa Journal, Washington DC, 28 July 2007, Robert Pettit

<sup>7</sup> “Mobile phones the talk of Africa as landlines lose out,” Guardian Unlimited, May 5, 2004

<sup>8</sup> <http://www.wi-fitechnology.com/displayarticle2563.html>, February 2, 2006

<sup>9</sup> “African Universities Strive to Make the Grade,” voa.com (Voice of America), Washington, D.C. 18 June 2007, William Eagle

**MUKURU:** Within this continent, our history is about being given charity, and so that has been the African mindset. We need to change that and say how can private enterprises work with entrepreneurs, and how can we bring the informal market into the formal market?

**LEAUTIER:** I'm struck by how misunderstood many of the African economies are. Investors think of them to be very risky, and much of it comes from really a lack of knowledge about how the continent functions.

For instance, within Africa, many of those who came in the mobile phone sector, took risks, and now they are making great opportunities.

**MAJOLA-EMBALO:** So we need African companies to come in and invest in other African companies and change the way investments are done. That they are not just about extracting, but what do they give back to those communities.

**BALOGUN:** So the idea here is how do we create a platform that allows them to grow? Give them better access to finance, on the one hand, and better access to information, where they can share best practices.

**MAJOLA-EMBALO:** Africa has never been in a better position to attract investments. We're over the conflict, regulatory environment has never been better, and the growth prospects are infinite.  
[END OF SEGMENT]

**LINDA A HILL:** There certainly are the macroeconomic sorts of issues you want to think about before you invest in a country. And then we learn all the things we learn in our finance classes about what you'd want to think about in terms of investing in a particular company in that country or region. And so, for sure, all of those things are legitimate and need to be taken into account.

But I think what we need to understand is where we get our data from in making those assessments, and making sure that we know how to interpret data, you know, interpret that data properly.

And you can only do that if you have some, probably some local partners helping you understand what are really the appropriate metrics and kinds of data that you want to collect, to figure out what the risk truly is in a given setting.

And the other piece of the puzzle though that in the end, if you look at what goes on with venture capitalists, is they do assess who the person is. And we have to admit that when people are different from us, it is harder for us to develop trust and the kinds of relationships that we need to develop to be willing to actually invest.

And for us not to acknowledge that and to act like the differences aren't there is to mean we won't get very far because what research tells us about working with people who are different than us is that actually you need to amplify those differences and then figure out the commonalities as opposed to act like they aren't there or minimize them because they are there.

And I think that they do get in the way of people making appropriate assessments of those who are, quote, different from them about whether or not this is a risky investment or not.

And on some level I think of people who invest are operating at that level, and who is the CEO, who is the management team. And I think that that piece of the puzzle is going to hold us back unless we can actively and honestly engage in the discussion of the things that are getting in the way of our being able to understand and know each other because we have, we're very different.

[END OF SEGMENT]

## IBM Video - "Microfinance in Africa" Transcript

**LEAUTIER:** The bulk of the jobs created in Africa now are created in the informal sector. And the creativity and dynamism in that sector I think is really quite remarkable. For instance, new ideas around managing credit and managing debt.

**DONDO:** The whole principles of microfinance is not to do charitable work. They deal with the low income people, people who cannot access financial subsidies from the formal financial institutions. So to me, it is not charity, it is really to provide a service that is needed and to do it profitably.

**OTINGA ONDERA:** They just need to feel that they can access credit, even if they don't have collateral, like title deeds. I don't believe in handouts or donations that are just free. They should be monetized so that they can repay back their loans. They can also be given more and encouraged to grow.

**DONDO:** We have seen businesses started as one man or one woman enterprise, grow and employ over ten people. We have seen businesses whose turnover was 1,000 dollars equivalent, grow until they generate up to 50,000 dollars equivalent, so the microfinance contributes significantly to the growth of these busy, informal sector businesses.

[END OF SEGMENT]

## IBM Video - "Mobile Platforms & ICT" Transcript

**MUGANDA:** Our population is largely computer illiterate. We are probably over 80 percent living in the rural areas. Since 1990, telecommunications became more vibrant in most African economies, mobile telephone especially. The adoption rate has been very high, so how can we then use mobile technology to bridge the digital divide?

**ODUJINRIN:** People used to use mobile phones to transfer funds. We use a lot of pre-paid in Nigeria, and they buy the code to the airtime and transfer it to someone in the rural area, who takes up the code and sells it to another person. This unique application is what we continue to see as the mobile infrastructure goes into the rural areas.

Connecting the rural areas from the people that needs knowledge to a knowledge economy.

**DESAI:** ICT plays a huge role in the transformation of a region, and it could be based on existing simple solutions, like mobile phones, which could create an interactive media within communities, between communities, and communities and the rest of the world.

**BARYAMUREEBA:** When you look at the less economically developed countries, they are focused so much on primary industries. Mining, agriculture.

We want to move into where we focus on the service industry. And we think that ICT can give us the infrastructure and the means to really compete globally.

[END OF SEGMENT]

**FADHILI:** Most universities, in Africa in general, are more academic oriented, in that the students there are trained to be academics, come out of there and go and look for jobs. The private sector should let the universities know what is it that they want in a graduate for example, what are the skills they are looking for?

So what I think the private sector can do is to really liaise with the academic institutions by offering internship opportunities, or even mentoring programs.

**OTINGA ONDERA:** The people in the private sector come in to give a series of lectures, not just arriving one day for the career fair. They come and give their view of the story. This will motivate the students.

**PETERSON:** It's quite exciting because we have mentors coming from the industry, adopting a student. They give that student information about what companies are looking for.

**OTINGA ONDERASO:** We are working with the government, we are working with the NEPAD, we are working with the World Bank, we are able to bring up these ideas, and they will be able to help others, because we can only innovate if we are allowed the freedom.

**PETERSON:** It just shows how important the private sector is when it comes to education, because if they could get involved in initiatives like this, it could create a lot of opportunities.  
[END OF SEGMENT]