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# INSEAD initiatives seek to foster growth in Africa



By Shellie Karabell

**Listen to INSEAD faculty, alumni and associates talk, and you realise that Africa is no longer just a story of disease, poverty, misery and humanitarian aid. Or of China's hunger for raw materials and energy, while the Japanese and Koreans buy land in Africa to grow their own food. Today, Africa is also a story of investment and growth on a global scale.**



“INSEAD has a unique opportunity to participate in the economic development of Africa,” says Loic Sadoulet, Academic Director of INSEAD’s Africa Initiative, part of the school’s [Social Innovation Centre](#). “Certainly we’re active there in the sectors relevant to driving economic growth: healthcare, technology, energy, agri-business, banking, finance.”

INSEAD students taking part in an MBA programme elective get hands-on experience in Africa. “We try to be physically present --we’re on the ground in South Africa, on the ground in Ghana with the students in Kenya ... We partner up with companies who are active in the region and the African markets: Vodafone, for example,” adds Sadoulet. “We partner with a lot of Nigerian banks; a lot of South African banks send people to our (executive education) programmes. The Swire Group -- which owns Cathay Pacific Airlines and Tetley Tea, for example -- they have a lot of executives coming in from Africa for the Swire Advanced Management Programme at INSEAD.”



“What we’re trying to do with the Africa Initiative is help businesses help the leadership of these countries to wean themselves off aid,” adds [Raadiya Begg](#), Director of the Africa Initiative. [Luk Van Wassenhove](#), Academic

Director of INSEAD's Social Innovation Centre, says business needs some direction in order to create profit in places like Africa: "Just being aware doesn't mean you can adjust your strategy or develop new products, or create the kinds of leaders you need, and so on."

Private equity investors with a track record in Africa already get it. "Africa is an improving story," says **Ibrahim Sagna**, a founding partner at Blackthorn Capital Partners which was created at the beginning of 2009 on Sagna's decade of prior experience helping raise and deploy global capital into scalable industries across Africa. Sagna spoke to MBA students this month during Africa Week at the school. "Africa is first and foremost benefiting from fast growing middle classes which are demanding higher standards of living, services, consumer goods and governance. Second, because the continent is the primary home of key natural resources, it is piggy-backing on another formidable story," he told students, "which is the secular rise of emerging markets seeking an increasing share of Africa's endowed resources."

As a young member of the Africa team of Emerging Markets Partnership (EMP) Global back in 1999, Sagna and his group raised over \$400 million to deploy in Africa over a five years period, investing in some 14 companies. "The first company we invested in, in 2000, was CelTel (a mobile phone company), when they had only 50,000 subscribers throughout the continent. When the exit came about five years later via a trade sale to the company known today as Zain, our \$50 million investment yielded \$214 million. CelTel had then more than five million customers --indigenous customers each providing revenues of over \$20 per month to the business -- and most of the staff was African. Investors got between four to eight times their money back."

Sagna, a native of Senegal who now lives in London, invests primarily "bottleneck breakers" in scalable industries -- telecom, media, banking, infrastructure services, real estate, clean energy and natural resources. But, as a board member of microfinance specialists Mecene Investment, he also has a keen interest for much smaller, entrepreneurial efforts serving Africa's rural sub-Saharan population. In most cases, this means giving money directly to the people. "You are really using your development money to help an individual run a small business," he explains. "You are empowering a kind of micro-entrepreneur, and in this case you're not providing capital to an individual to consume. You're paving the way for someone to run a business, to produce." Default rates on these kinds of micro-loans are astonishingly

low at around two per cent, according to World Bank figures. Why? “Because if he stops paying (his loan repayment) he stops seeing money coming in from his business, he stops his business.”

INSEAD alumnus **Sameer Hajee** (MBA '04D) is himself banking on this sort of micro-entrepreneurial structure to make his newly-created Nuru Light Design a success. With seed money from the World Bank, Hajee was able to complete a feasibility study, a field trial and a product design for what is essentially a ‘single-serving’ of light -- an affordable LED rechargeable ‘flashlight’ unit, which can be used alone or in a stack, to light up a student’s desk or an entire house. In a continent like Africa, where less than 10 per cent of the population has access to grid electricity and where the main sort of light is kerosene, Hajee believes his invention can’t help but succeed.

“The average daily salary in this part of the world is only about 1 dollar a day; kerosene costs about a dollar a litre; and it’s a health hazard and unsafe,” he says. “Others are pushing solar lamps, but these are inefficient and expensive: they cost about 20 dollars and only about 18 per cent of their intake is convertible into electricity.” Hajee’s system can be recharged using a solar panel, but the main recharge is by “pedal power” - a generator you power up by pedaling like a bicycle. “It takes about 20 minutes to recharge five lights, and each light is good for up to 40 hours, so that’s pretty efficient,” he points out.

Hajee is taking Nuru to the market through rural enterprise: local entrepreneurs buy Hajee’s generators and as many individual lighting devices as possible with seed money from a local microfinance bank. They sell the lights to customers and then charge them for recharging -- at about the same cost of recharging a cell phone (that is, about 20 cents for a full charge).

Hajee’s margins on the sale of the lights themselves are small, but the huge volumes will compensate. In some cases, for example, Hajee sells quantities of his lighting devices to charities and organisations such as UNICEF, which in turns gives them to local households. “We hope eventually this might encourage households to buy more lights themselves, and we’d like to recapture some of what the entrepreneur will be charging for his recharging of those lights, which is a standard practice among the local phone companies, who make the bulk of their revenue from top-ups” Hajee says. “And then we get carbon credits, because our devices actually curb carbon

emissions -- something you can't say about kerosene."

Hajee has been working through INSEAD's Africa Initiative and the Social Innovation Centre to bring his product to market; the school is hoping to do a case study on it and use Hajee's experience as a teaching tool.

Van Wassenhove addresses these product issues regularly. "You look at how do you get a new malaria drug to a remote village somewhere in Africa," he proposes. "You've got marketing problems, you've got pricing problems, you've got governance problems, you've got logistics problems, you've got IT problems, you've got consumer behaviour problems ... "

You've also got risk issues to deal with, as PE investors in Africa are in for a bumpy ride, says Sagna. "Out of 10 investments, you can get six that are not really good ideas for several reasons: you hired the wrong team, your investment thesis was incorrect ... and currently there is a recession on, and you don't have excess possibilities," he points out. "But Africa itself is a developing story."

Not to mention the ever-present problem of corruption. What's an investor to do about that?

"We take a very firm stance on this," says Sadoulet. "There are many important ways of doing business without dealing in corruption. We bring in speakers, we have cases around this ... We heard one private equity investor tell us recently he's worked in private equity in Africa for seven years and has never paid a single bribe. He says sometimes it means things go slowly, sometimes you miss markets but little-by-little you build your reputation, which allows you to build a much more sustainable business in these economies."

"At the end of the day," Van Wassenhove adds, "someone has to tell you, 'you made a difference here.'"

<http://executive.education.insead.edu/social-entrepreneurship>

INSEAD Social Entrepreneurship Programme

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