

AFRICA'S MOMENT

The days of poverty and turmoil are beginning to fade, as the continent attracts investors from around the world who are helping to develop modern industrial know-how.



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THIS IS A PIVOTAL moment in Africa's history. The continent—home to more than 1 billion people in 54 different countries—is emerging as a strong global player capable of participating in private sector opportunities as well as local economic development. Driving this transformation are abundant natural resources, more sophisticated economic management, and increasing trade with the U.S., China, India, Brazil, and other world powers.

Thanks to these and other key trends, Africa is now being viewed less as a helpless victim dependent on the world's charity and more as a place where strategic-thinking companies can find growth opportunities and consumers with money to spend. "Agriculture remains the largest economic sector in Africa, but growth is coming from a multitude of industries," says Darius Mans, president of Africare, a nonprofit that has provided development aid to more than 35 countries in sub-Saharan Africa. "Telecommunications, energy, consumer products, and health care are all part of the growth story of Africa in the 21st century."

Leading multinationals have long understood the appeal of Africa's vast markets. Coca-Cola, Unilever, and Heineken, for instance, have been doing business on the continent since the early part of the past century. Now companies in a

variety of industries—such as Brazilian mining giant Vale, health care specialist Novartis, and major telecommunications and financial services firms—are also tapping into Africa's potential, drawn by its young population, annual GDP growth of 5%, and consumer spending that now reaches more than \$850 billion a year.

According to the McKinsey Global Institute, the number of African households with discretionary income (money available to spend on items other than food) is projected to rise to 128 million by 2020—a 50% increase. By 2030 the continent's top 18 cities alone could have a combined spending power of \$1.3 trillion. For producers of everything from shampoo and laundry detergent to beer and soda, that's a potential gold mine. "There are huge opportunities in Africa for companies that were late to India and China," says Matthew Meacham, a senior partner with consulting firm Bain & Co. "The margins are good, and the middle class is continuing to grow at a healthy pace."

BURGEONING OPPORTUNITIES

The growth that Africa is experiencing is across the board. To be sure, the resource-rich continent did benefit immensely from robust global commodity prices over the past decade. Even so, McKinsey says, natural resources directly accounted for just 24% of Africa's GDP growth from 2000 to 2008. The remainder came from other sectors, including wholesale and retail trade, manufacturing, and telecommunications.

"Many of the governments in Africa are coming around to thinking more strategically about the industries that are present in their countries," says Philippe de Pontet, director of the Africa

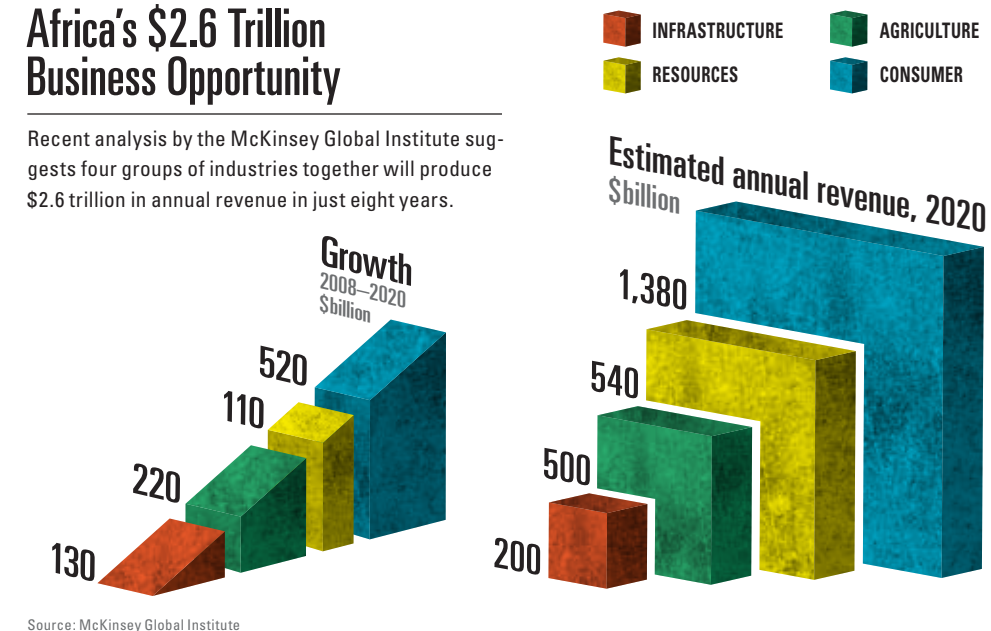
128 million
The forecasted number of African households with discretionary income in 2020

Source: McKinsey Global Institute

Africa's lions are on the move: The continent's collective GDP is roughly equal to Brazil's or Russia's, and Africa is among the world's most rapidly growing regions.

Africa's \$2.6 Trillion Business Opportunity

Recent analysis by the McKinsey Global Institute suggests four groups of industries together will produce \$2.6 trillion in annual revenue in just eight years.



50%
The portion of Africans expected to be living in cities by 2020

Source: McKinsey Global Institute

practice at Eurasia Group, a global political risk research and consulting firm. "That's important. Just because there's potential in a given market doesn't mean the deals get done if the economic and political environment isn't right."

Here's a look at some of the most promising growth and development stories in Africa today.

AGRICULTURE

With 60% of the world's uncultivated arable land, the upside potential for Africa's \$100 billion agricultural sector is immense, but not without some serious obstacles. Among them: a lack of seeds that are technologically suited for the climate, an inadequate infrastructure for bringing crops to market, and a lack of economic assistance for small and women farmers.

All that is changing, says Mans of Africare. Countries such as Nigeria, Tanzania, and even Ethiopia are developing strategies that treat agriculture as a business—rather than a social obligation—capable of leading the continent out of poverty. In fact, earlier this year, Nigeria's minister of agriculture, Akinwumi Adesina, had this to say at a conference: "Agriculture transformation across the globe has led to dramatic reduction in poverty and increase in job opportunities in China, Vietnam, and Brazil, among other countries. Nigeria needs to diversify her economy



The promised land: Africa holds a 60% share of the world's uncultivated, arable land for farming.

from oil by embracing agriculture."

The challenge is being met with help from major U.S. companies. In May, President Obama announced that a public-private partnership has pledged \$3.5 billion in food and nutritional assistance. The goal is to help Africa's smaller farmers—who produce 90% of the continent's food—get better access to things like small-scale irrigation systems and communications equipment for checking on markets from their fields.

HEALTH CARE

The numbers are staggering. Every 60 seconds an African child dies of malaria. In 2010 alone the disease afflicted 216 million people worldwide and caused an estimated 655,000 deaths, mostly in Africa. But beyond these figures lies the real trag-

A Focus on Africa

BRAZILIAN mining company Vale is bullish on Africa. Its African investments topped \$110 million in 2011. Galib Chaim, executive director for capital project implementation, explains the thinking behind its enthusiasm.

Africa is rich in resources. Which countries does Vale view as having the greatest potential?

Mozambique, where we have a coal-mining operation already in place and an expansion under way, is home to vast, high-quality coal reserves and, therefore, has great potential for growth. The Copperbelt area, covering Zambia and Congo, is rich in copper. It's why Vale is willing to become a major player in this sector as well.

Can you give us some detail on a specific project that Vale is working on in Africa?

We are investing to increase coal production capacity in our Moatize coal mine, which began operations in August 2011. Our goal is to double production capacity by 2014. We are also investing in the

implementation of the Nacala Corridor project, a world-class logistics railway and port infrastructure project that will support the expansion of production capacity at Moatize. We expect to start operations in the second half of 2014.

Given the poverty and infrastructure issues in Africa, how do you overcome these obstacles when a project is under way?

Vale is committed to contributing to the economic, social, and environmental development of the communities where we are present, providing and leveraging social investment, strengthening communities' human capital, and respecting local identities. We have a number of programs designed to mitigate risks and leverage opportunities, includ-

ing those for impact management, vocational training, supplier training, local and traditional community relations, culture, mine closure, and other social programs. These start at the implementation phase and run through the end of activities there. No matter where we are, we seek to work in a way that can bring benefits to the communities, investing in education and training programs to overcome these challenges.

How much did Vale spend in the continent last year and what are your spending projections for the next three to five years?

We're investing heavily in Africa, particularly in Mozambique. The second phase of the Moatize coal project, for instance, involves a budget of \$2.068 billion, while the Nacala Corridor project is estimated at \$4.4 billion until it is completed in 2014. Last year, we spent \$111 million on these two projects in Africa.

How do Vale's activities help contribute to the sustainability of Africa?

Leaving a social, economic, and environmental legacy, working in an integrated manner with governments and society, and acting as a catalyst for local development in the medium- and long-term are Vale's commitments to sustainable development in the areas where it operates. In 2010, we created the Vale Mozambique Foundation, headquartered in Maputo, the country's capital. The institution coordinates Vale's social investments in six action pillars: health, education, culture, sports, urban development, and productive activities. The Mozambique Foundation mirrors the Vale Foundation we operate in Brazil. ●

VALE AGENCY



Vale is working together with Africa to build a better future.

Vale is a leading mining company, and our work goes far beyond mining. We care about the African people and contribute to the economic and social development of the regions where we are present. In Mozambique, Vale has recently launched operations at the Moatize Coal Mine in the Tete province. A major addition to the local and national economy, Vale's presence in Tete brings diverse social investments to the area and is driven by a workforce comprised of 85% Mozambicans. In Zambia, Vale is developing copper projects, where we sponsor the Millenium Village, a poverty eradication program that's helping the country reach the Millenium Development Goals. And we do all of this by looking ahead, in order to bring a better future for Africa.

Coal piles up in the Moatize mine, in the province of Tete, Mozambique.



Africa's long-term growth will be lifted by internal social and demographic trends—particularly its growing labor force, urbanization, and the related rise of middle-class consumers.

according to McKinsey), Novartis developed the SMS (for Short Message Service) for Life program. The initiative—started as a pilot program in Tanzania in 2009—enables district medical officers to have weekly visibility of medicine stocks at their health facilities. If a particular clinic needs additional drugs, supplies from an overstocked center can be trucked over.

Barrington, who heads the program, is the first to admit that he wasn't sure the plan would work. "It was a different way of dealing with the problem," he explains. To his delight, the first week of the program showed dramatic results: The out-of-stock position in Tanzania's Lindi District for pediatric medicine dropped from 34% to 10% (and has continued to decline). Linus Igwemezie, head of the Novartis Malaria Initiative, says that new SMS for Life pilot programs in Ghana and Kenya will include monitoring stock positions of rapid diagnostic tests, plus patient surveillance data, and anti malaria medications.

MINING

As rich in natural resources as Africa is—with nearly three-quarters of the world's most strategic minerals—mining is a valuable yet often underdeveloped industry there. For example, Nigeria is rich in iron ore, coal, and gold, yet because of the intense focus on its massive oil

edy: Malaria is preventable and curable. Effective drugs with an above-95% success rate exist, yet the disease still claims so many lives.

Jim Barrington, a program director at Novartis, the drug manufacturer that makes the anti malaria medication Coartem, began looking into the problem in 2008. What he discovered was a distribution dilemma. None of the district medical officers throughout Africa had any way of knowing how much—or how little—medicine their health facilities had on hand at any given time. "Some clinics had too much, and others had none," Barrington says. "Getting a handle on the in-stock position of the drug was at the root of solving the problem."

Enter the cellphone. With mobile usage so pervasive in Africa (there are more than 300 million new mobile phone subscribers since 2000,

1.1 billion
The projected number of Africans of working age in 2040

Source: McKinsey Global Institute

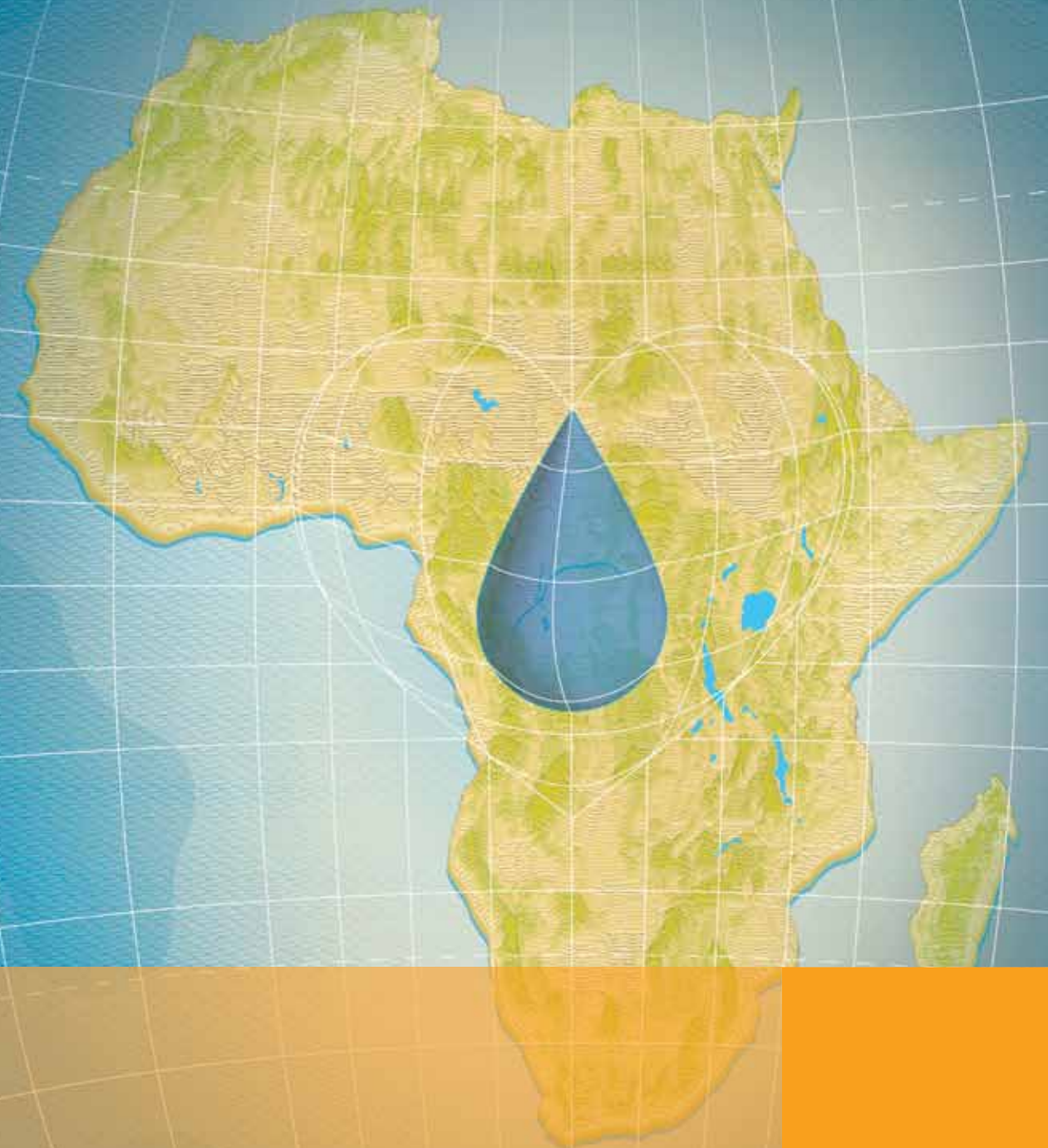


A doctor administers Novartis's anti malaria medication to an infant at Michelle Obama Children's Hospital in Kenya.

MARK TUSCHMAN FOR NOVARTIS AG

africa's water loves treatment

In Africa, Guinea worm cases have been drastically reduced since 1986 by using our Abate® larvicide: an efficient water treatment product that kills insect larvae and makes contaminated sources safe again. When eradicating life-threatening diseases means helping communities to grow stronger, it's because at BASF, we create chemistry. www.basf.com/chemistry





Staying connected:
Cellphone usage is helping African communities improve everything—from banking to health care.

reserves, the country's mining industry has been largely overlooked.

The African Development Bank, recognizing the importance of mining to the continent's overall economy, is now promoting private sector investment and partnerships. In recent years, the ADB has invested more than \$500 million in the mining industry in Africa, either as a lender or as an equity holder in various investment funds. Going forward, the bank's goal is to use its financial capacity and its knowledge of the continent to foster growth while also monitoring mining's environmental impact in various countries.

TELECOMMUNICATIONS

If there's one development in Africa that can truly be called a game-changer, it's the mobile phone. Says Africare's Mans: "The continent has seen a cellphone revolution. It's the great enabler."

More than 650 million Africans had cellphones

at the end of 2011, according to Africare. The access, says de Pontet of Eurasia Group, has "been felt at a community level in a very profound way." For instance, in Kenya there is one doctor for every 10,000 patients, yet 25 million mobile phones are in use. Safaricom, one of the biggest telecom companies in the country, is working with the Kenyan Ministry of Health to use text messaging technology to send reminders to new mothers about pre- and post-natal care in an effort to cut down on maternal and infant mortality rates.

On the banking front, FloCash, a new tech startup, enables anyone with an e-mail address and a mobile phone to send and receive money from anywhere in Africa. "In most African countries, a high percentage of the population is unbanked," says de Pontet. "It's not just poverty that's the reason. Many simply lack direct access to a brick-and-mortar bank. That's why mobile banking has taken off."

CONSUMER GOODS

One of the most dramatic changes in Africa over the past decade has been the emergence of a growing middle class. According to the African Development Bank, the continent's middle class already accounts for a third of the population. Total consumer spending is expected to double from current levels by 2020.

Companies are taking notice, and competition is heating up. According to Bain & Co.'s Meacham, more than 70% of the top 50 global consumer packaged goods companies are already operating in Africa. Some, like Diageo, a London-based premium drinks company, get more than 10% of global sales from Africa.

The challenge for consumer goods companies in the years ahead, says Meacham, is deciding which countries hold the most promise. Given the scarcity of reliable market data, companies are choosing to partner with local firms or acquire smaller ones with strong brand recognition, route-to-market capabilities, and production capacity.

Even considering the many complicating factors, Meacham believes that the challenges in Africa "are not that different from those in Central America in the 1980s and 1990s." And with growth slowing elsewhere around the world, Africa looks better and better. —Susan Caminiti

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\$1.4 trillion
Africa's total consumer spending projected in 2020

Source: McKinsey Global Institute

More than 70% of the top 50 global consumer packaged goods companies are already operating in Africa, according to Bain & Co.



The Novartis Malaria Initiative
Innovating to help eliminate malaria

For over a decade, Novartis has been a pioneer in the fight against malaria*

Since 2001, Novartis has delivered **500 million antimalarial treatments** to malaria-endemic countries, contributing to a significant reduction of the death toll from malaria.¹

Resting on four key pillars, the Novartis Malaria Initiative is tailored to best meet patient needs.

- 1 Treatment – starting with the patient
- 2 Access – improving affordability and availability of medicines
- 3 Capacity building – empowering patients and healthcare professionals
- 4 Research & Development – innovating to eliminate malaria with new medicines

* Uncomplicated *Plasmodium falciparum* malaria

We believe that no one should die of malaria today. Together with our partners, and with our continued patient-centric approach, we are committed to the common goal of malaria elimination.

References

1. Data on file at Novartis Malaria Initiative. Most recently published statistic on this can be found in the Novartis Annual Report 2011.



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www.malaria.novartis.com

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THE CHOICE IS SIMPLE:

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Africare builds wells.



Africare

Improving lives, Building futures

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